

Understanding leadership, strategy and organisational dynamics in the not-for-profit housing sector

NOT-FOR-PROFIT (NFP) HOUSING PROVIDERS IN AUSTRALIA HAVE RESPONDED WELL TO RECENT OPPORTUNITIES TO UPSCALE, DIVERSIFY AND INNOVATE. IMPROVING CERTAINTY OF GOVERNMENT POLICY, ESPECIALLY FUNDING TO SUPPORT A PIPELINE OF HOUSING PRODUCTION, IS NEEDED TO ENABLE THE LEADING NFP HOUSING PROVIDERS TO CONSOLIDATE THESE GAINS.

KEY POINTS

- The most significant drivers of recent growth of not-for-profit (NFP) affordable housing providers included the National Rental Affordability Scheme (NRAS), the Social Housing Initiative (SHI) and transfers of the management of public housing. New regulatory arrangements and the restructuring of rents also assisted the sector.
- Core social purpose was a powerful driver of decision-making and strategic positioning of organisations, although differences in the way their social mission was achieved as they became more commercially oriented were evident. Some had a greater appetite for business risk and innovation than others.
- Governance, staffing profiles and systems changed in response to growth. In particular, organisations had recruited Board Directors and senior executives with finance, property and business development expertise and had invested significantly in developing organisational capabilities.
- Interviewees anticipated that over the next five years there would be less government investment and political certainty. Some organisations have responded

*This bulletin is based on research conducted by **A/Prof Vivienne Milligan** and **Dr Gethin Davison** at the AHURI Research Centre—UNSW, **Prof Kath Hulse** at the AHURI Research Centre—Swinburne University of Technology and **Prof Paul Flatau** at the AHURI Research Centre—UWA. The research examined how leading Australian NFP housing organisations have developed their organisational capacities in response to directions from government that aimed to expand the sector.*

by seeking out alternative funding sources, including operating in new jurisdictions or entrepreneurially pursuing developments that serve low- and moderate-income clients. Others have remained cautious, preferring to remain focused on their key client groups.

- Governments can improve outcomes for the NFP housing providers by providing clear and consistent policy together with adequate and predictable funding, while also respecting their autonomy to manage their own affairs. This could be advanced through the provision of an inter-governmental policy framework.

CONTEXT

In recent years the Commonwealth Government increased funding for delivering social and affordable housing under the Nation Building and Economic Stimulus Package (through the SHI), NRAS and the Housing Affordability Fund. State government urban renewal programs that redevelop and enhance underused areas have sought to minimise or mitigate the loss of affordable housing, while state public housing programs are being transitioned towards a non-governmental development and management model.

This project sought to better understand how NFP housing providers have responded to these opportunities. Using the concepts of social enterprise and organisational hybridity, the study explored the scope and type of business innovations found in the sampled organisations and examined how these organisations were reconciling pressures to adopt more commercial practices with their social mission.

RESEARCH METHOD

The researchers consulted a panel of chief executive officers (CEOs) from 14 of the largest and most diversified NFP housing providers across Australia. All had experienced rapid growth in their resources and business scale over the previous three years. Collectively in 2010–11 they managed

over 22 000 dwellings, had assets valued at \$2.6 billion against which they held liabilities of \$764 million and had combined annual rent revenue of \$132 million.

A mixed qualitative and quantitative approach, involving an online survey followed by in-depth interviews with panel members, was used to explore external and internal drivers of organisational change, organisational values, and strategic positioning and adaptations to change. This research approach, adapted from the Delphi methodology (a way of exploring decision-making and change through a multi-method approach), was designed to harness ‘insider’ perspectives and to draw out both the shared and divergent views of organisational leaders, while also protecting their anonymity.

KEY FINDINGS

External factors

Not-for-profit housing providers were significantly influenced by their participation in the SHI and NRAS. Panel members also identified new specialised regulatory arrangements applying to NFP housing providers and the restructuring of rents as important drivers of business change.

Housing and finance market conditions had a mixed influence on the ability of NFPs to undertake housing development. While land and construction costs remained high and conditions for private lending into the sector deteriorated after the global financial crisis (GFC), the post-GFC housing market environment improved the market competitiveness of NFP providers that had benefited from government stimulus funding.

Organisational values

For the 14 organisations, decision-making and strategic positioning were driven by their social mission. This meant making housing available and affordable to a spectrum of income-constrained households, but also other goals such as tenant support, connecting tenants to employment and training, resident participation

and community building. There were differences in the ways their social mission was best achieved as organisations became more commercially oriented. While some expressed the view that social mission should never be compromised by business drivers, others had greater appetite for innovating and taking on business risks to advance their social goals. However, most embraced a private sector ethos and were committed to setting their own priorities rather than those of government.

The CEOs favoured professionalism (over volunteerism), and a majority were looking for their services to become more geographically widespread.

Response

Some major shifts occurred, such as:

- Most (8 out of 14) organisations included housing for both low- and moderate-income households, whereas three years before almost all were exclusively focused on low-income groups.
- Eleven organisations were acquiring and using property assets to develop their businesses, whereas three years before more than half just managed assets on behalf of another owner.
- Ten organisations had secured private finance for their housing development and renewal activities, either on a project-by-project basis or as a 'line of credit'.
- Twelve organisations had entered new markets either within or across jurisdictions.

Other shifts included moving towards considering home ownership (rather than just rental) as an option for some clients, and shifting towards a place-management approach rather than just providing housing services. This development came about in the context of stock transfer, where neighbourhood amenity is considered part of the organisation's responsibility when a large number of tenancies are concentrated in one location.

The organisations broadened their stakeholder relationships significantly. In addition to close relationships with state government

housing departments (and in some cases local governments), organisations developed direct relationships with the Commonwealth Government and certain non-housing state government agencies. They also worked much more closely with private sector finance and property development sectors than previously, and both competed and collaborated with other NFP housing providers to a greater extent.

Organisations made significant changes to their governance, staffing and systems and several adapted their governance arrangements to deal with their increased exposure to financial risk, such as through the use of special purpose vehicles (SPV, a subsidiary set up for a specific purpose).

Different organisational responses

There was significant variation in the extent organisations leveraged assets and entered into more commercial activities, such as mixed tenure developments, higher rental products, market sales and for-profit activities.

This was explained by a range of factors including differences in state government policies enabling business expansion, the current scale of revenue and balance sheets for individual organisations and differences in the strategic orientation of organisations.

Future challenges

Panel members broadly anticipated less government investment and less policy certainty as the social housing stimulus program finished, NRAS faced an uncertain future and political changes put foreshadowed policy directions, such as asset transfers, at risk. A key issue concerned how effectively NFP housing providers can leverage public housing assets transferred to them from state governments.

Several of the more commercially oriented organisations sought to reduce their risks by pursuing alternative funding sources (to government), competing for opportunities beyond their 'home' jurisdiction and restructuring their programs and assets to improve their financial viability.

Some organisations were open minded about their future business strategy, geographical focus and activity mix, and planned to pursue a wide range of housing activities for both low- and moderate-income clients as opportunities present themselves. Others were more cautious and believed it was best to stay focused on mission, have a strong commitment to expanding services to existing households and retain locally anchored, client-centred services.

Private financial institutions were reported to remain cautious about investing in the NFP housing sector and some CEOs were concerned about financing risks in an environment of decreasing public funding, especially given that private financing terms and conditions were not particularly favourable.

Some panel members identified risks to their legitimacy that could arise from business diversification and geographic expansion, particularly if such changes weakened their capacity to house high needs groups and stay connected to local communities.

POLICY IMPLICATIONS

This study showed that governments can catalyse significant changes in the NFP sector with clear and consistent government policy, adequate and predictable funding and responsive regulatory settings.

Governments need to understand the hybrid nature of NFP housing providers as neither public nor for-profit, and ensure that the organisations have sufficient autonomy to manage their own affairs, demonstrate their capabilities and pursue innovation, while being

fully accountable to government and to civil society for their performance.

There are risks that the gains made in creating change within NFP housing providers may not be sustained in less favourable funding and financial environments.

Governments can assist by:

- Agreeing to co-funding arrangements that are designed to attract a predictable stream of least cost private finance to the sector.
- Improving policy certainty around strategic issues facing the sector.
- Working more closely with the NFP housing sector around future directions.

FURTHER INFORMATION

This bulletin is based on AHURI project 70689, *Understanding leadership, strategy and organisational dynamics in the not-for-profit housing sector*.

Reports from this project can be found on the AHURI website: www.ahuri.edu.au or by contacting AHURI Limited on +61 3 9660 2300.

ahuri.edu.au



ADDRESS Level 1, 114 Flinders Street Melbourne Victoria 3000 TELEPHONE +61 3 9660 2300
FACSIMILE +61 3 9663 5488 EMAIL information@ahuri.edu.au WEB www.ahuri.edu.au

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