



2013

DIRECTORS SOCIAL IMPACT STUDY 2013

Examining governance challenges and opportunities in Australia's not-for-profit sector



COMMONWEALTH BANK COMMUNITY COMMITMENT

Commonwealth Bank's Institutional Banking and Markets team supports the advancement of Australian directors and boards through a collaborative and meaningful partnership with the Australian Institute of Company Directors. We recognise the important role that not-for-profits play in the communities where CommBank operates, and that's why as part of the NSW Fellows program, we are proud to support the *Directors Social Impact Study 2013*.

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We look forward to continuing our long term support to the not-for-profit sector; a sector that is so critical to the well-being of our communities.

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CommonwealthBank 

We would like to thank the Commonwealth Bank for partnering the *Directors Social Impact Study 2013*.

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The Directors Social Impact Study 2013 was conducted by Curtin University on our behalf.

FOREWORD BY JOHN H. C. COLVIN FAICD



John H. C. Colvin FAICD
Chief Executive Officer
and Managing Director

A strong and sustainable not-for-profit (NFP) sector is important to the Australian economy and community, in many cases delivering vital services to the most vulnerable members of our community. Critically, this sector is served by those acting in directorship roles and participating in the governance of NFPs.

The *Directors Social Impact Study* reinforces our support for and contribution to the world-leading performance of Australian NFP boards and directors. The study is now the largest of its kind in Australia and has evolved over the years to become the primary source of information relating to governance practices and challenges in the NFP sector.

Once again, I would like to thank the team at Curtin University's Not-for-

profit Initiative who undertook this research. I would also like to thank all of our members and those non-members who took part in the online survey or focus groups. The research was carried out during July 2013, with 2,132 directors responding to the survey and over 50 taking part in eight focus groups across Australia. These directors hailed from a variety of large and small organisations operating in a wide variety of sub-sectors. Importantly, they govern organisations with a combined annual turnover of over \$17 billion.

This study provides detailed findings relating to NFP governance as well as insights into the practices of for-profit boards. It has produced a substantial body of highly valuable information and it will be necessary to analyse and report on the findings over the next few months. However, the findings summarised in this document aim to answer the following questions:

- How skilled are our NFP directors? And how much time do they give to the NFP sector?
- How well do NFP boards operate? How do they really compare with for-profit boards?
- What are the biggest challenges NFP organisations face in 2013/14?
- What do directors want from governments to support the sector?

Too often the NFP sector is inappropriately seen by policymakers

and commentators as one homogeneous group. The sector comprises organisations large and small, some with a high number of employees and others completely reliant on volunteers. There are organisations operating in sectors as diverse as education, health, welfare sport, international aid, disability, aged care, advocacy and the arts.

Given the diverse nature of the sector, the study has been expanded this year to include specific examination of the disability and sports sectors. Both of these sectors are undergoing considerable change and are receiving increased attention from policymakers and the community at large. To this extent, this report seeks to understand the unique challenges faced by directors and boards in these sectors and, importantly, to build on the findings of previous Company Directors studies by refining and re-examining key themes and ideas.

I believe this report will be of great value to readers and will continue to inform policy and practice well into the future.

A handwritten signature in black ink, appearing to read 'John H. C. Colvin'. The signature is fluid and cursive.

John H. C. Colvin

KEY FINDINGS

NFP DIRECTORS – SKILLED,
EXPERIENCED AND IMPROVING

NFP GOVERNANCE IS EFFECTIVE
AND APPROPRIATE

FINANCIAL STRENGTH AND INCOME
DIVERSITY ARE THE TOP PRIORITIES

DIRECTORS CALL ON GOVERNMENTS
TO REDUCE RED TAPE

DISABILITY SECTOR – RESPONDING
TO UNPRECEDENTED CHANGE

SPORTS GOVERNANCE –
RAISING THE BAR



NFP DIRECTORS – SKILLED, EXPERIENCED AND IMPROVING

The skills of NFP directors are gaining greater respect

There was a notable difference in the perspective and attitude of directors participating in this year's focus groups. Previously, many directors entered the conversation from the perspective that the overall quality of directors and boards in the NFP sector is of a lower standard than it is in the for-profit sector. (More precisely, they said their own boards were good, but on the whole NFP governance was less professional or effective.)

This year, directors, including many with experience on large and listed company boards, commented on the complexity of NFP governance, the additional challenges they face as directors of NFPs and the need to be at the 'top of their game'. Indeed, many had the view that, on a like-for-like basis, NFP directors require a wider range of skills than for-profit directors.

From both our survey and focus groups there were similar findings. In particular, the directors responding to our survey who currently serve on NFP boards:

- Are very likely to be the same people as those serving on for-profit boards. Two-thirds of NFP directors have current or previous experience on a for-profit board.
- Have an average of 10 years governance experience, one year more than the average of directors who serve on for-profit boards only.
- Are nearly all over the age of 40 (95%); the average age is 55.

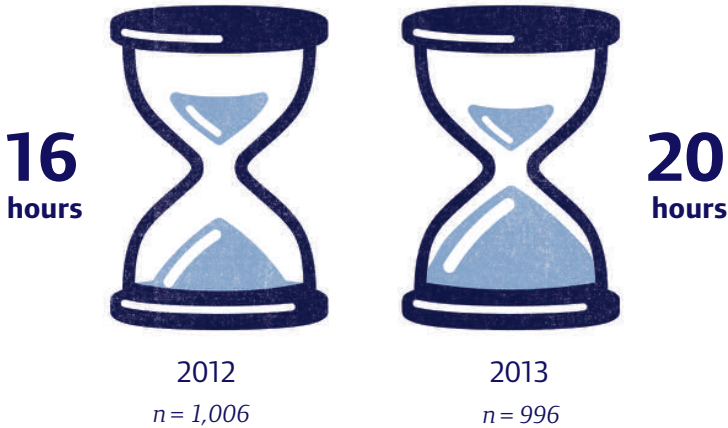
Directors are spending more time on NFP governance each year

The time spent on a single NFP directorship is increasing and was up by 25% on 2012 figures. In 2013, NFP directors surveyed spent an average of 20 hours or 2.5 days per month on a single NFP, compared to the 16 hours per month reported in 2012.¹

“Directors on NFP boards have to think with both their head and their heart.”

¹The data in this report is not weighted for turnover. The average turnover for NFPs included in the 2011 survey is slightly larger than both the 2011 and 2012 surveys and this may have influenced responses. The three-year variance is less than 10%, some of which may be accounted for by inflation.

Time spent on NFP directorships is increasing



“Resourcing NFPs is much more complex and dealing with volunteers requires a different skill set.”

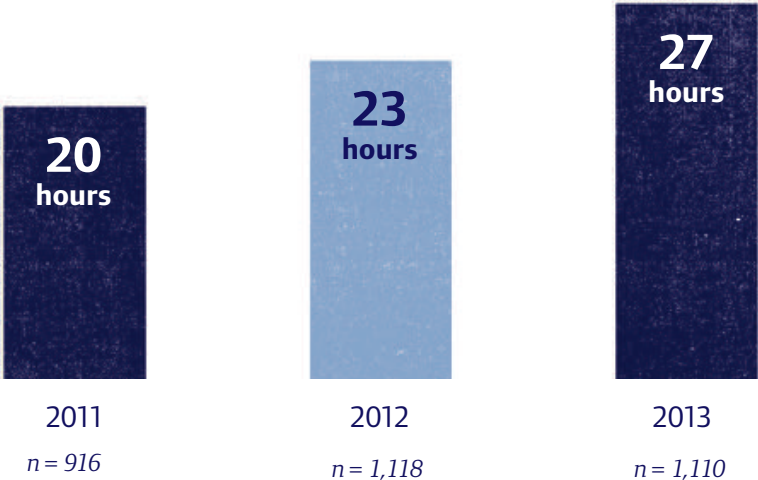
In 2013, 28% of directors were spending between two and five days and 13% were spending more than five days per month on a single NFP directorship.

The average number of NFP boards served remains the same, but the time spent on all NFP directorships has increased significantly in three years.

Half of those surveyed have two or more directorships and 20% have three or more directorships.

However, the amount of time directors report spending on all their non-executive directorship work has increased from 20 hours per month (2.5 days) in 2011 to 27 hours or 3.4 days per month in 2013.

Hours spent per month on all NFP directorships



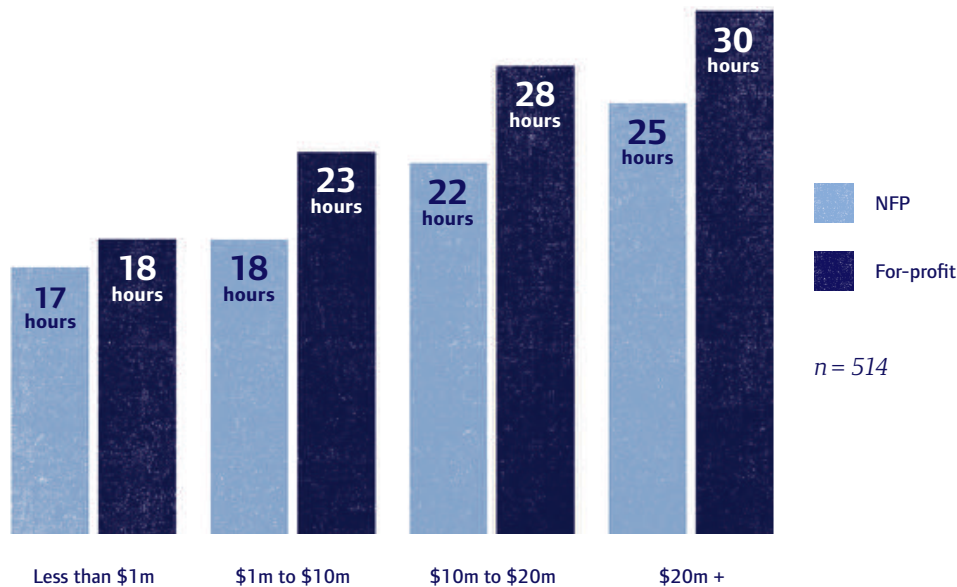
For-profit directors spend about 25% more time than NFP directors working on each board

The average time directors spend on a single for-profit board was 25 hrs

per month, five hours more per month than they spend on their NFP director roles. Across the board, directors are reporting spending more time on their for-profit roles than their NFP roles. For organisations above \$1m revenue this is about five hours more per month.

“Money won’t guarantee you a better director.”

Average number of hours spent by turnover



NFP directors undertake as much, or more, professional development

One of the challenges NFP boards face, particularly smaller NFPs, is the limited or non-existent financial resource available for board development. As such there is a perception that NFP boards do not undertake as much professional development as their for-profit counterparts, further adding to the reputation of NFP governance.

However, our survey found that NFP boards and/or directors are as likely to be undertaking development activity as for-profit boards. The majority of NFP directors (76%) stated that their NFP boards had undertaken some form of professional development in the last year; most had an internal board assessment or individual directors had undertaken external training. These results are very similar to those of last year. At this stage, it is not clear how NFP professional development is being resourced, that is, is it paid for by the NFP, the directors themselves or in other ways?

“We need people who understand what we are about. Passion can often compensate for less experience.”



76% of NFP directors stated that their NFP boards had undertaken some form of **professional development** in the last year.

“It can take us more than a day to get to the board meetings in [location] and the meetings sometimes run all day or longer. Then there is the need to travel back again. We get our costs covered, but that’s all. It is really hard to get people who can spare a week four times a year.”

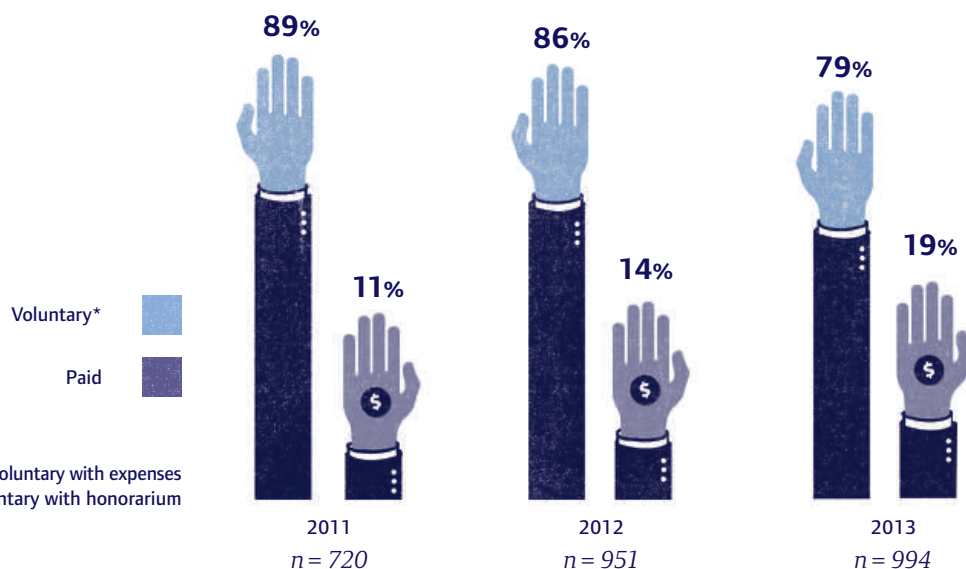
Four out of five NFP directors are unpaid – but this is changing



Over half of all directors (55%) work on a voluntary basis and a further 24% only receive reimbursement of their expenses or an honorarium. However, this year’s study found that nearly 20% of NFP directors are being paid. This may reflect the increase in time

and responsibility required to fulfil directorship obligations or recruitment difficulties being experienced. Examination of findings since 2011 show that there has been a steady increase in the proportion of directors being paid fees.

More directors are receiving remuneration



*Voluntary includes voluntary with expenses paid and voluntary with honorarium

Payment of directors is related to NFP size

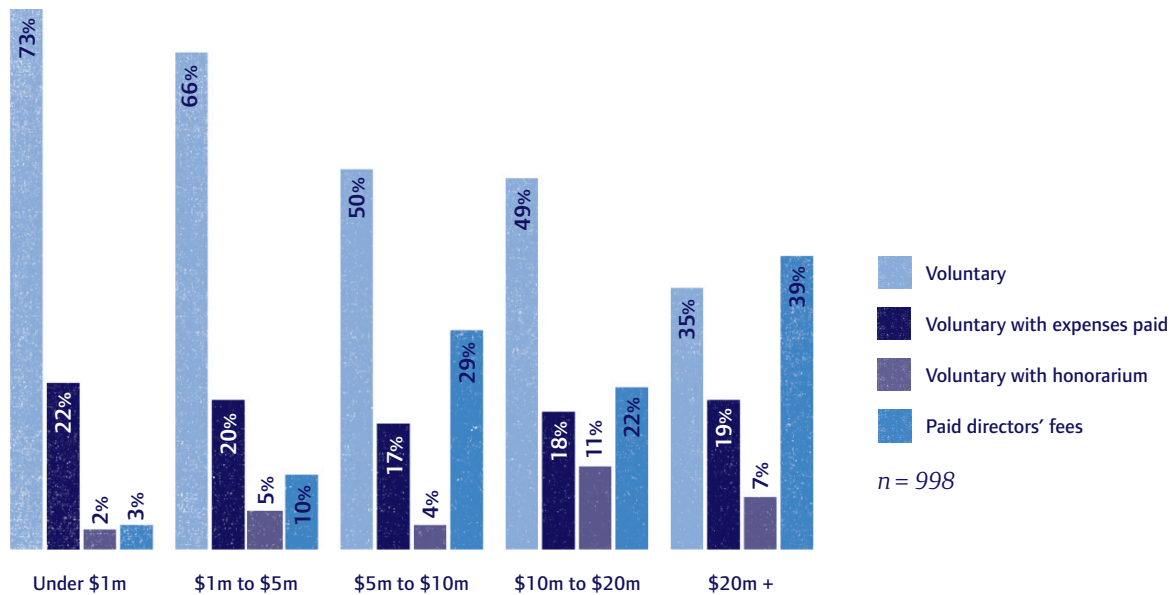
The percentage of directors receiving payment increases with the size of the turnover of the organisation. About 40% of directors of organisations with a turnover above \$20m are paid; more than four times the rate of payment of directors of organisations between \$1m and \$6m.

However, the majority (about 60%) of the directors of even the largest NFPs are working on a voluntary basis, notwithstanding they spend an average of 3.1 days per month working for the NFP.

In the focus groups, there were strong, yet divided, views on whether directors should be paid.

“They needed my skills and my financial background.”

Payment of directors’ fees by NFP turnover



To pay or not to pay?

For

- Time requirements and responsibilities means the commitment is too much to expect without payment.
- Payment encourages directors to put more time into their governance responsibilities and be more accountable.
- Incentive for directors to work with boards located in regional and remote areas. Paying directors would create a larger pool of directors willing to be involved.

Against

- Payment would attract people for the wrong reasons and not necessarily result in better or more committed directors.
- Directors who have a passion for the mission or connection with the cause would be preferable.
- Increasing trend for directors to donate to the organisations they serve. More prevalent on arts boards than other organisations. Commonly referred to as 'give, get or get off'.

.....
*“Help can be more
 valuable than a
 donation.”*

.....
*“I have an interest in
 improving healthcare
 and customers’
 outcomes.”*

NFP directors want to give back

The directors who volunteer to serve on NFP boards are mostly those that want to ‘use their experience to give back to the community’ (68%) and/or because of their ‘belief in, or passion for, the mission of the organisation’ (61%). Comparing the 2013 results with previous years found that not only are these consistent motivators, there has been an increase in the percentage of directors working for NFPs for these reasons.

Many of the directors in our focus groups mentioned these same motivating factors and had come

into NFP directorships after years of experience in senior corporate roles and/or as directors in the for-profit sector.

The media and commentators often suggest that those seeking a paid for-profit directorship should first ‘cut their teeth’ on an NFP board, and use it to build their skills and contacts. This was mentioned by a couple of participants when asked why they joined an NFP board. However, it was clear that views on this as a motivator were divided and those who were serving on boards primarily for self-advancement were not held in as high regard by others.

The unique demands of NFP governance

- A for-profit generally has one major goal, whereas an NFP has at least two. An NFP’s super-ordinate goal is to achieve its mission, but it must maintain its financial viability in the short, medium and long term and there can be conflict between these objectives.
- Measuring the achievement of mission is much harder than measuring profit. There are complex challenges inherent in measuring the worth of such things as an arts exhibition or the best approach to improving quality of life of a person living with disability. This affects overall assessment of achievement and the capacity to rationally choose one course of action over another.
- The need to ‘scrimp and make do’ so that the most funding can be allocated to the achievement of mission, rather than salaries, infrastructure, training and innovation.
- The uncertainty and limited capacity to grow income, especially for NFPs funded by government. There is often little or no opportunity to increase income from service users, especially where there is a separation of funder and beneficiary or a need to operate where costs are not fully covered.
- The impact of representative models of governance, and the challenges of responding effectively to external change when there are conflicting agendas. This can limit the speed and agility of the board to respond to change and increase political impediments to action.

NFP GOVERNANCE IS EFFECTIVE AND APPROPRIATE

For the second year this study has researched directors' actual experience of board governance and their rating of their individual boards and found no evidence that NFP boards are any more or less effective than for-profit boards.

This year 1,000 directors independently rated the effectiveness of either their NFP or for-profit board (or both) on which they serve and the results

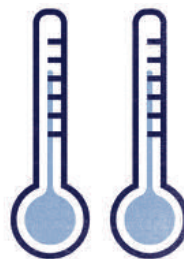
show that the average scores are the same. Further, when asked to rate their boards on the eight attributes of governance, the ratings were again not only statistically equivalent, but demonstrated that NFP and for-profit boards experience similar challenges.

This similarity in ratings is very strong, despite the smaller average size of NFPs.²

"There really is no difference in NFP and for-profit boards. They can both be good or bad."

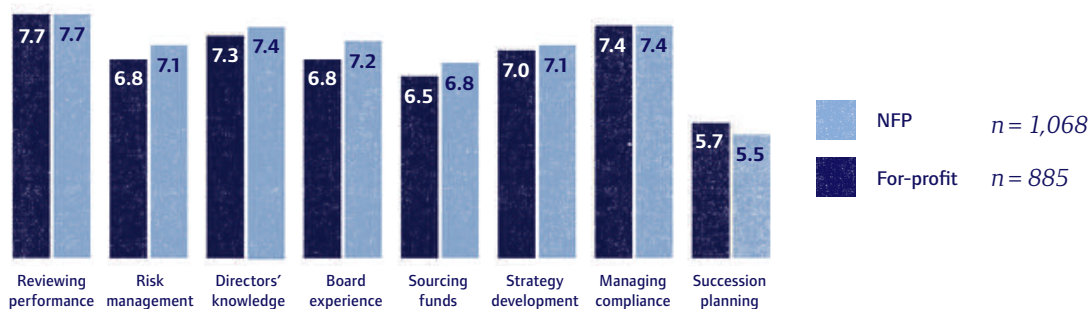
No evidence to support that NFP boards are less effective.

7.07
out of ten
NFP
n = 1,119



7.09
out of ten
For-profit
n = 951

Comparison of NFP and for-profit performance



² Average turnover per NFP was \$16m; average turnover of for-profit was \$18m.

The reputation of NFP governance is still not consistent with reality

“I audit both for-profits and NFPs and my experience is that there is little difference, and certainly no greater fraud in the NFP sector.”

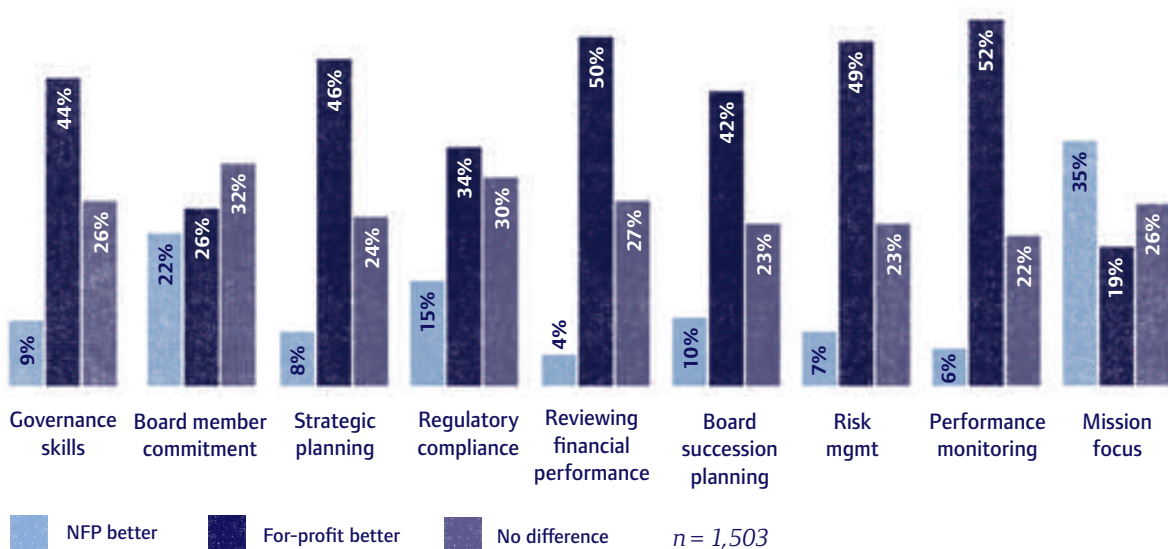
When directors were asked their views of the overall quality of governance in the NFP sector, most still rank for-profit boards better on nearly all attributes. The exception was ‘mission focus’, arguably the traditional strength of NFP boards.

It is interesting to note that when independently analysed there was no difference between NFPs and for-profits on ‘performance monitoring/review’ or ‘strategic planning/

development’ but in the comparative questions, these were seen as a particular strength for for-profits. It appears that governance in the NFP sector is getting less credit than it is due, or possibly that for-profit governance is getting more.

Also of particular interest is the difference in ratings between the three director cohorts. Directors currently serving only on NFP boards gave the lowest ratings to NFP boards. The directors that currently work with both NFP and for-profit organisations, that is, those in the best position to compare, more often said there is no difference between NFP and for-profit boards.

Perception of governance differs



Making a fair comparison of governance

When comparisons are made between the sectors it appears that directors (and arguably the media, commentators, policymakers and the public) compare the governance practices of NFPs, even small ones, with those of large and/or listed companies. Similarly, they compare

the governance practices of large charities with small community organisations; for example, schools.

As with for-profit organisations, the governance practices and structures of NFPs should be determined through consideration of their size, sector, operating and regulatory environment, external environment and resourcing.

FINANCIAL STRENGTH AND INCOME DIVERSITY ARE THE TOP PRIORITIES

Maintaining or building income will be the top priority for over half of all NFP boards. Directors commented on the increasing competition for revenue while operating in sectors in which costs are growing at a faster pace than income.

Income diversity is fundamental to strategic independence

About half of the respondents said that increasing 'own source income' and/or 'diversifying their income sources' would be a top priority. In most cases, they were seeking to reduce reliance on public sector funding.

The survey found a significant reliance on government funding for NFPs included in the survey. A quarter of respondents' NFP organisations receive 80% to 100% of their income from state and/or the Commonwealth government, and for a further 14%,

government funding accounted for 50% to 79% of their income.

In the focus groups there were many comments on the need to develop strategies to both reduce funding risk and, importantly, to maintain independence and 'bargaining power'. Directors were concerned with the extent that government funders drive the strategy and the operations of their organisations. They felt that governments 'hold the remote control' but do not always have sufficient understanding of the impact of policy changes.

Diversifying income sources is difficult for many NFPs at risk of greater tax

The capacity to diversify incomes or increase own-source income depends on the sector of operation.

"We need to be financially stronger and build a surplus for long-term sustainability."

"The stronger your governance the less likely your funding will be cut."



39% rely on the government for more than half of their income.

“When the government puts up its salaries, it has a knock-on effect on us. We often recruit in the same areas and we just can’t compete with rising government salaries and their conditions.”

Human services providers have a lower capacity to increase or diversify income than the NFPs in sectors such as education, sport and arts that charge individual fees, ticket sales, membership fees and other services.

In addition, although state governments are encouraging all NFPs to build income from commercial activities, including social enterprise initiatives, the Commonwealth government is increasingly looking at the taxation arrangements surrounding these activities.

Managing costs and responding to changes in government policy

Of the other priorities examined, just over a third of directors will be working on ‘responding to changes in government policy’ and a similar proportion will be managing costs and staffing. In the groups, several directors mentioned that they would be seeking to increase reserves over the next few years due to increased volatility of income and expenditure.

Board priorities are dependent on size and sector

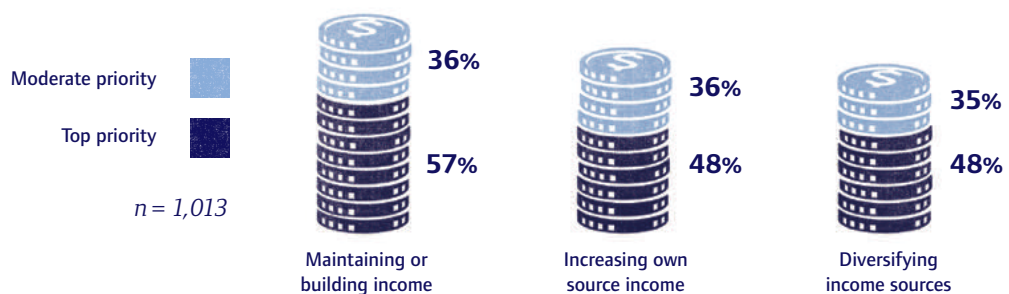
When the overall findings are disaggregated, they show the diversity of sector challenges and needs. For example, some organisations will be dealing with the ever-increasing demand for their services and the need to manage

growth, while others are struggling to remain relevant. The latter includes some small and mid-sized leisure, sporting and arts organisations as well as social clubs.

Allowing for the smaller sample sizes, detailed analysis of directors’ priorities found the following:

- Maintaining/building income was a higher priority for organisations in the arts and church/religious organisations (about 70%). It was also a much higher priority for organisations with a turnover less than \$2m (about two-thirds of these organisations).
- Diversifying income sources is a top priority for a higher proportion of small to mid-sized organisations with turnover of between \$250k and \$2m.
- The intention to increase own-source income correlates with the size of the organisation and is a much higher priority for the smaller organisations (all those up to \$10m turnover) than the larger turnover organisations. It is also a higher priority for arts organisations, but less of an issue for those in the welfare sector.
- Managing decreasing demand (that is, staying relevant) was a bigger issue for sports and church organisations, and peak bodies. It was also most important for the organisations with a turnover of between \$1m and \$2m.

Priorities for your NFP organisation for 2013/14



DIRECTORS CALL ON GOVERNMENTS TO REDUCE RED TAPE

For some time now, state and Commonwealth governments have stated their intention to reduce the administrative burden on NFPs and harmonise regulations. This was a key objective in the establishment of the Australian Charities and Not-for-profits Commission (ACNC) and various state government initiatives. Directors still see this as a major requirement and want to see governments take real action.

Of the more than 1,000 directors who answered this question, over a quarter (28%) said reducing the administrative burden on NFPs should be the top priority of government in the next three years, and a total of 85% ranked this in the top five. Directors believe the second highest priority is the need to harmonise regulation across states and territories, an issue strongly related to red tape. This was a top

priority for 16% of respondents and a top five priority for a total of 69% of respondents.

In the focus groups it was clear that directors did not always separate Commonwealth and state government administrative requirements and therefore the call for the reduction in red tape can be applied to both.

In the focus group discussions, it was clear that directors understood and agreed with the need for transparency and to provide information for monitoring. Most also supported the establishment of the ACNC. However, beyond this, they want governments to reduce information requirements, unnecessary reporting burdens and to use the information provided. Further, they wanted governments to acknowledge and respect the contribution of the NFP sector and to work with them to achieve good outcomes.

“Government is not one thing. The states and the Feds fight each other.”

“We get flooded with information... It’s not just what they want you to do, it’s also what they expect us to understand.”

Top two priorities for Commonwealth Government to address in next one to three years



“Consolidation is easier said than done. I have seen a number try but differences in mission or traditions get in the way.”

Supporting capacity development

Next on the list for directors was a desire for governments to build the capacity of the sector. In total, 63% ranked this as a top five priority.

Government contracts to support sustainability

For the quarter of NFPs receiving 80% or more of their funding from governments, capacity development is strongly related to how government contracts are specified. In a number of cases, directors spoke of government placing unrealistic controls on resources, including limits on the amount of funding that could be allocated to administration and not allowing depreciation to be included in costings. Over the longer term this has resulted in an under-investment in training, innovation and assets. Directors spoke of their organisations constantly ‘running on empty’.

Directors also want longer-term contracts as one to three year agreements impact staff recruitment, retention and morale. Not knowing if your staff will be needed in 12 months also affects decisions to invest in skills development.

Unintended consequences of NDIS

The impact of the National Disability Insurance Scheme on the wider NFP

sector’s workforce was raised by several directors, particularly those in the health, welfare and aged care sectors. Some NFPs in human services, notably those in Western Australia and the Australian Capital Territory, are finding it difficult to recruit staff and expect to lose staff at all levels to the disability sector.

Sector consolidation

This year, unprompted, directors in all groups raised the issue of the proliferation of NFPs and many expressed views about the need to encourage consolidation. They spoke of duplication of administrative resources, competition for funding and general inefficiencies that can result in small amounts of resources being distributed across a large number of organisations.

However, they also commented on how difficult it is to achieve mergers in the NFP sector.

Moreover, while directors could see opportunities to improve efficiency, they also believed that the diversity, ‘richness’ and ‘texture’ of the sector are its greatest strength. NFPs emerge and grow due to local community demand, which can differ depending on demography, culture and location. Similarly, there may be no agreement on ‘best practice’ of care or service users may simply have a preference for one type of service over another. For example, there is no best way to deliver palliative care.

“They strangle the funding and then expect us to innovate.”

DISABILITY SECTOR – RESPONDING TO UNPRECEDENTED CHANGE

Across Australia there are more than 1,000 disability service organisations (DSOs) that provide essential services such as accommodation, personal care, therapy, education and employment for children and adults with disability, including those living with the most severe intellectual and physical disabilities. Nearly all of these organisations are NFPs, and many of them are small. They range from those with a couple of staff providing services in remote towns, to \$100m organisations with staff numbering in the hundreds. DSOs are mostly Commonwealth and/or state government-funded and in 2012/13. The total funding was around \$6bn.³

The change that will result from the introduction of the National Disability Insurance Scheme (NDIS) is ground shifting. Until now, state and Commonwealth governments have allocated funding to DSOs on the basis of contracts for service. Under the NDIS this approach will be dissolved and the funding will be allocated based on individual need. It is intended that people living with disability will then choose the services that best meet their needs and purchase these directly from providers.

The NDIS policy is well supported in the community, but realising the aims will depend on the capacity of DSOs to quickly and effectively change the way they operate. In the next few years, thousands of directors of DSOs will be steering their organisations through a major transformation and their success or otherwise will affect some of Australia's most vulnerable people. If the promised increase in funding is realised, they will also have to respond to substantial opportunities for growth.

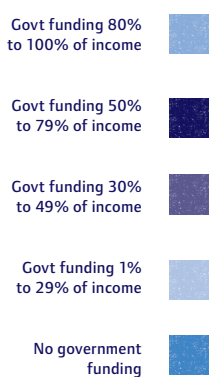
The key issues for disability directors in 2013/14

DSOs have been highly dependent on governments for their income and have operated under tightly controlled funding structures. When state and Commonwealth income is combined, nearly half of the organisations responding to the survey received 80% or more of their funding from these sources. A further quarter of our sample received more than 50% of their funding from government sources.

“NFPs that operate on a volunteer model are very challenged by the NDIS structure. Our NFP has a small team that connects clients to volunteers providing services at no cost. The costs of the small team are funded through the state government and donations. With NDIS, the state government funding disappears. This threatens the viability of the organisation and means that its services may well disappear.”

³National Disability Services – the peak body for NFPs in the disability sector – reports it has over 850 organisational members.

Funding sources for DSOs



n = 71

44% of DSOs rely on government for more than 80% of their income.

“There is a build-up of expectations [among service users] and a need to ensure that these [expectations] are met from a supply/disability organisation perspective.”

Directors in the focus groups said that the shift away from direct funding will affect nearly every part of their operation. The key issues they raised were the following:

Impact of costing and pricing services individually

DSOs are known to structure service packages and funding bids so that high-margin services offset lower-margin essential services to ensure that the most severely intellectually and physically disabled members of our community are supported, even when the cost of service is not fully recoverable. Under NDIS each service will have to be provided on a full cost recovery basis, and DSOs will need to develop the systems and skills to calculate these costs and plan accordingly. In addition to developing accounting systems, this will require organisations to determine the appropriate margin in a competitive environment when they have little idea of service volume. For some directors, this will be a significant

challenge. For others, this is a benefit of NDIS and long overdue.

Related to this is the concern that some organisations, particularly for-profit providers, will ‘skim’ the highest margin services, leaving some people living with disability unsupported. There is additional concern that this may push some people with a disability into the health sector.

Impact of marketing and competition, and the culture of the sector

DSOs are generally person-centred organisations, built on foundations of equity, compassion, service and care. Traditionally, the sector has taken a collegiate, non-competitive approach, sharing knowledge and sometimes resources for the benefit of each other’s service users. With NDIS, not only will DSOs be competing with each other, directors are expecting an influx of competition from both for-profit providers and NFPs in other sectors, such as health. DSOs will need to learn marketing

skills and are expecting to have to substantially increase their marketing budgets. As DSOs seek to maximise the allocation of money to front-line services, expanding marketing budgets is not just unfamiliar; it is also uncomfortable. It also flies in the face of government admonitions to the sector to be more efficient and to apply their resources to service delivery. Directors also spoke of the emergence of ‘disability service brokers’, who help people living with disability to select services. If brokers seek a commission from DSOs, this will ultimately have to be passed on to service users.

Impact on philanthropy and donations

Many DSOs currently receive grants from lotteries, other community-based funders, companies and individual donors. Directors are expecting that the introduction of NDIS and the associated increase in personal tax will have a large negative impact on their income from these sources.

Impact on financial management

Directors were also concerned that DSOs may need to increase their

working capital to cope with a potential shift from being paid in advance to being paid in arrears.

Impact on smaller organisations

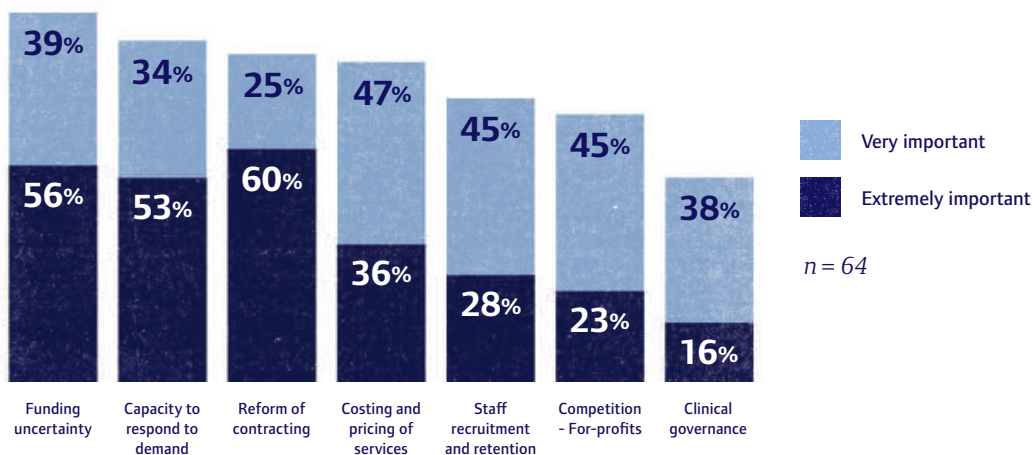
Participants in the focus groups mentioned that some DSOs will be more significantly affected than others. Responding to NDIS will require short- and long-term investment of management and staff skills and time, and potentially in infrastructure, including IT. DSO directors are very concerned that smaller NFPs (under \$2m) may not have the resources to cope and will go out of business. This would further reduce the capacity of the sector and the choices available to people living with disability. Of particular concern are the DSOs located in smaller towns and regions.

At the time of writing, directors of DSOs involved in advocacy or research considered their organisations to be particularly vulnerable, as individual service users are unlikely to pay for these services, at least not on a cost-recovery basis and alternative funding sources had not yet been identified.

“We need to be as good at marketing as we are at providing service.”

“Change has been positive and forced boards to think in a more sophisticated way.”

Funding uncertainty and increasing demand are the biggest challenges

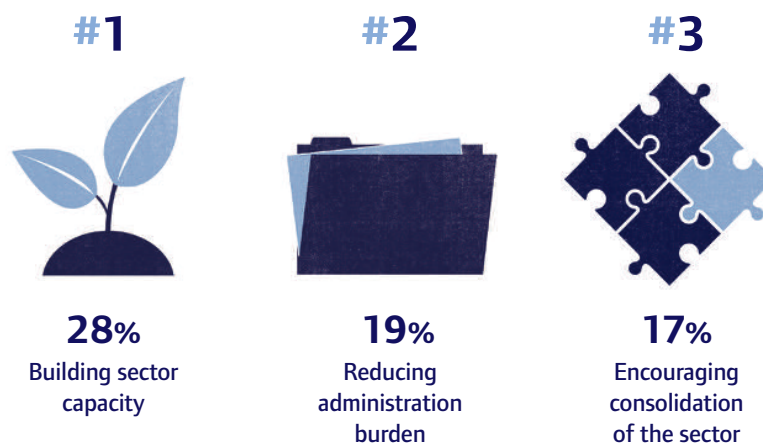


How skilled are DSO directors and boards?

Allowing for the smaller sample size, the comparison of DSO directors' responses with those of the total population of NFP directors found the following:

- Four out of five DSO boards have invested in professional development in the last year. Nearly 60% of DSO boards have had an internal board assessment and half have had external training for individual board directors.
- Despite the size and complexity of DSOs, none of the DSO directors responding to our survey received director fees. Compared with NFP boards more generally, DSO directors have a greater interest in serving to 'use my experience to give back to the community'.
- DSO directors are working with larger than average NFPs, with a third serving organisations with a turnover above \$20m and over a quarter having over 200 employees. However, it is worth noting that many DSOs are small or micro organisations. In this sample, 28% had less than 50 employees and 13% had less than 10.
- DSOs boards may be more effective than the average. They rated 7.4 /10 compared with 7.1/10 for the total population of NFPs. However, there was variance in the skills of DSO boards. They scored slightly higher for reviewing financial performance and director knowledge, but lower for sourcing of funds.

Disability sector – top priority for Commonwealth Government to address in the next three years



n = 64

What DSO directors want from the Commonwealth

Given the expected changes, DSO directors' views on the top priorities for the Commonwealth Government over the next three years are different to the rest of the NFP sector. When asked to choose their top five priorities 28% of respondents nominated "building sector capacity" as number one. Of particular interest is that just under one in five said the highest priority should be 'encouraging consolidation of the sector', with a further one-third putting this on their top 5 list.

Clarity, consultation, respect and strategic planning

Directors want to build their relationship with the Commonwealth government, to receive clearer information on policy and be engaged in planning and development. There was a feeling that NDIS is being 'done

to' the sector rather than 'with' the sector and a wide-spread view that there was insufficient information about how the NDIS was going to take effect and the amount of funding that will actually flow down to end-users.

Directors also want the Commonwealth Government to recognise the importance of building sector capacity strategically, and not simply leave development to competitive forces. Many drew analogies with the aged care and childcare sectors and problems that occurred with the entry of for-profit providers in recent history.

Managing client expectations

Directors were particularly keen to ensure that clients were kept at the centre of all policy developments and to ensure that NDIS is communicated accurately. They felt that it will be the service providers that will bear the brunt of any disappointed service users.

SPORTS GOVERNANCE – RAISING THE BAR

Sports organisations play a highly valuable role in Australian communities. Not only do they encourage and facilitate physical activity for health and well-being, they provide opportunities for social cohesion, create employment and act as a catalyst for the support of other community activities. In Australia, sport has an unparalleled reach and impact and is used by governments as a vehicle to implement policy initiatives in a broad range of areas, including in relation to obesity, smoking, drugs, youth development and cultural integration.

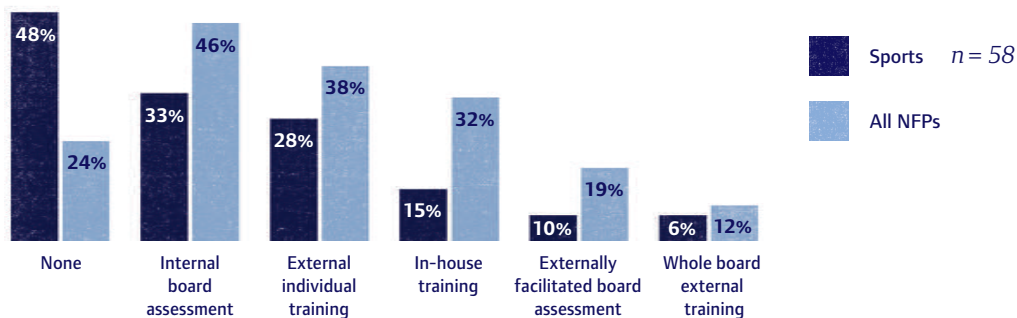
To achieve these outcomes, we need high-performing and well-functioning sports organisations at all levels, from the grass-roots suburban clubs to the largest sporting codes. Just as with

the broader NFP sector, the sports sector is diverse in nature and our sample included directors of small suburban clubs, of state and national sporting bodies and those sitting on the boards of large multi-million dollar organisations that operate on a commercial basis.

In recent years, sports organisations at all levels have had to manage a range of new and sometimes unique governance challenges, including increased media and public scrutiny, doping, illicit drugs and anti-social behaviour, and member and public liability. In response, this year's *Directors Social Impact Study*, included specific research of sports organisations to find out which issues are of most concern to sports boards and how well equipped they are to manage these.

“Many sports need to become more sophisticated in their governance.”

Professional development – comparison of sports boards to all NFP boards



.....
“The man in the street – everyone – has an opinion on how well we (the board) are doing. And they are not afraid to let us know.”

Our results suggest there is room for improvement

Allowing for the smaller sample size, the survey results suggest that the average effectiveness of sports boards may be lower than that of other NFP organisations, on average, according to survey respondents. Directors of sports boards rated their overall effectiveness at 6.5 compared to the average rating of 7.0 for all NFP organisations. Further, the results show that sport boards have undertaken less professional development than others. Nearly half of sports boards had not undertaken any professional skills development in the last year. Of those that had, most had undertaken an internal board assessment. Directors seem to be aware of this and some commented on the need to improve governance knowledge and skills, strategic planning and performance evaluation. There were also comments on the need to undertake better board recruitment to ensure directors had the necessary directorship and professional skills.

This finding was supported by discussions in the focus group which highlighted the challenges that sports organisations often face. Those spoke of the need to create clear and effective strategy, but also of the underlying competition not just against other codes, but also within their own codes at a local, state and national level.

However, directors noted that achieving these goals can be extremely difficult in federated structures, particularly for those based on a representative model. Federated structures can reduce the capacity of sports bodies to agree on strategy, to ‘speak with one voice’ to both members and the public and to respond quickly to change. The strong history and traditions of many sporting clubs can further hinder organisation agility.

.....
“Sport’s a great policy lever. It’s a great conduit for social programs.”

The need for improvement is acknowledged and change has started

Some participants in the focus groups noted that their organisations were currently undertaking, or had already completed, a review of their governance models and practices to improve performance.

Policymakers have also identified a need for change. Last year the Australian Sports Commission (the ASC) revised and re-issued its Sports Governance Principles.⁴ For the large National Sporting Organisations, their future funding will be contingent on the adoption of non-negotiable governance requirements. These include a requirement to be structured as a Company Limited by Guarantee, a single national entity for all forms of the sport and a set of rules for board composition and operation. This is a considerably stronger compliance regime than, say, that of the Australian Charities and Not-for-profits Commission, which currently regulates the charities sector.

For State Sports Associations (SSAs) and even small clubs, the ASC suggests that these governance principles should be adopted on an ‘if not, why not’ basis. Some state governments are reinforcing the ASC policy, at least for SSAs. These requirements are quite prescriptive and set the bar at a high level. Some sporting organisations may already have these structures in place, but for those that do not, these guidelines could require major change. For clubs that receive little government funding and therefore have less of a mandate for change may need to convince members that these principles should be adopted. The survey found that government funding accounted for less than 15% of total income.

⁴ Available from ausport.gov.au/supporting/clubs/governance

Key issues for directors of sports organisations in 2013/14

Income uncertainty and membership growth

Similar to NFP directors generally, sports sector directors consider the most important governance challenges they face in 2013/14 are related to income uncertainty (mentioned by nine out of ten directors). For most sports organisations, membership and commercial activities account for more than half of their income, especially for the smaller organisations.

Doping, anti-social behaviour and gambling

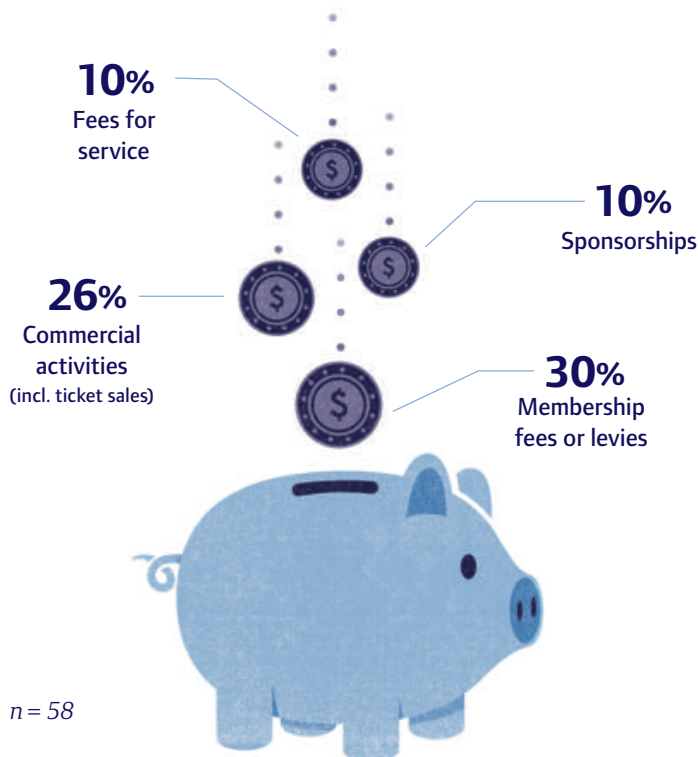
There were divergent views on the impact of doping and illicit drugs in sport. The issue of whether it is the responsibility of boards to take action, or if it should be left with individuals, was contentious. Some commented that drugs in sport, even the use of

drugs by celebrity athletes in other countries, had a significant negative impact on their reputation and junior recruitment. These directors were taking proactive approach to working with member organisations and governments to align their organisations with healthy living. However, other directors of similar organisations in other sporting codes believed that the board had little responsibility or ability to control doping or illicit drugs and that it was not on their agenda.

Anti-social behaviour was considered an important or extremely important challenge for about three-quarters of directors who responded to the survey and was raised by those working for both small and large sports NFPs. However, there was little comment on this issue in the focus groups. Instead, for the focus group and some survey respondents, gambling in sport was an emergent and important concern and seen to impact at all levels of the sector.

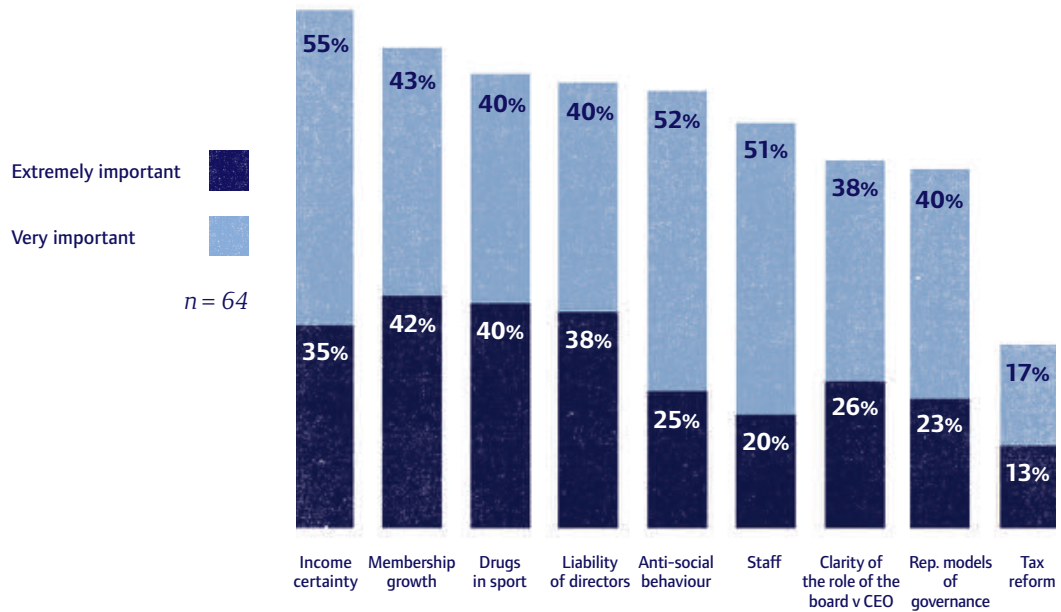
.....
"You get a lot of passion, so we get conflict. We often compromise, which isn't great."
.....

Top three sources of income – sports sector 2012/13



.....
"We have major concerns about the extent to which gambling is being so heavily promoted. Will this start to impact local events?"
.....

Sports sector - priorities for 2013/14



“We now have to think of WHS for volunteers and then there is the duty of care for kids, and others.”

Liability and insurance

This issue was of concern for all directors and they commented that their responsibility in this area is increasing. There was acknowledgement of the increased liability for the safety of players, staff and the public, and the cost of insurance and of increasing regulation impacting everything from the ‘sausage sizzle’ to player injuries.

Despite the larger proportion of their income sourced from commercial

activities, it was interesting that tax reform was not considered to be a big issue for these directors.

The average turnover of sports organisations served by respondents is lower than other NFPs. Just over one-third of respondents were directors of sports organisations with a turnover of less than \$500,000 and less than 10 staff. However, there was also a distinct set (about 20%) of very large organisations with more than 200 staff and turnover above \$20m.

Challenges for sporting organisations

- Representative models of governance leading to individual ‘agendas’
- Lack of knowledge of directors’ duties
- Historical and cultural issues – “winning” at all costs
- Instability of boards
- Lack of understanding among community of the role of a board

THE RESEARCH PROFILE OF RESPONDENTS

The survey sample

The *Directors Social Impact Study* is based on a very large sample of directors. Included in the sample are the responses from:

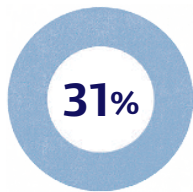
- 668 directors of NFPs only.
- 541 directors of for-profits only.
- 576 directors of both NFPs and for-profits.

The completion rate for 2013 was 88%.

When totalled, this study provides information on the experiences of 1,244 current directors of NFPs and 1,117 current directors of for-profits.

A further 347 (16%) of respondents were not directors of NFPs at the time of the survey, but of these about half had been NFP directors in the past.

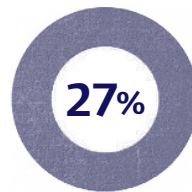
Profile of respondents



NFP only
668 directors



For-profit only
541 directors



Both NFP and for-profit
576 directors

Total number of respondents = 2,132
Total number of current directors = 1,785

The average age of respondents was **55** years old. Only **5%** were under 40 years old.



Respondents' demographic profile

Women are far greater represented on NFP boards. Of those respondents who only hold NFP directorships **41.4%** were women, compared to **16.9%** of for-profit only directors.



However, similar to the 2012 study, the demographic profile of directors who work for NFPs, for-profits or for both types of organisation are quite different.

NFP boards appear closer to achieving gender equality than for-profit boards. Over 40% of respondents who only serve NFP boards are women.

The focus groups

To expand the study and include views from different states and regions, eight focus groups were undertaken; one in both Canberra and Mount Gambier, and three in both Perth and Sydney. One of the groups held in Perth consisted of only directors of NFP disability organisations and one group in Sydney included only directors of sports organisations. Most of

the other six groups also included directors of organisations in these sectors. The majority of attendees of all groups were current members of Company Directors, but there were also a small number of non-members. Groups had between five and nine participants and lasted a minimum of 90 minutes.

The directors who contributed to the qualitative research came from a very wide variety of backgrounds. They included an accountant who supports an indigenous corporation; a lawyer who sits on the board of a refugee organisation; the chair of a national sporting code; a director with a regional RSL club; the chair of a university body; trustees of charitable funds; and directors of national arts organisations. Some participants travelled from regional areas to be present.

ABOUT US

We are an internationally recognised, member-based, not-for-profit organisation that provides leadership on director issues and promotes excellence in governance.

We have more than 33,000 members, including more than 850 members based offshore, in countries including China, Singapore, Hong Kong, Indonesia, the United States, the United Kingdom and the United Arab Emirates.

Our membership includes directors from organisations as diverse as ASX-listed companies, government bodies, not-for-profit organisations (e.g. charities and arts organisations) and family owned/private companies and entrepreneurial ventures.

Our principal activities include conducting professional development programs and events for boards and directors; producing publications on director and governance issues (including books, *Company Director* and *The Boardroom Report*), and developing and promoting policies on issues of interest to directors.

The Global Network of Director Institutes (GNDI) provides us with a forum to demonstrate the leadership of Australian directors internationally, and to share expertise in corporate governance and professional director development. GNDI is comprised of membership organisations for directors from Australia, the UK, US, Canada, Malaysia, New Zealand, Brazil and South Africa.

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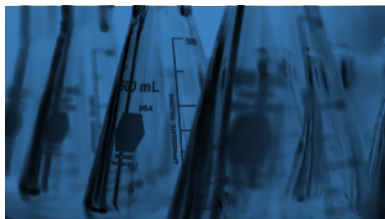
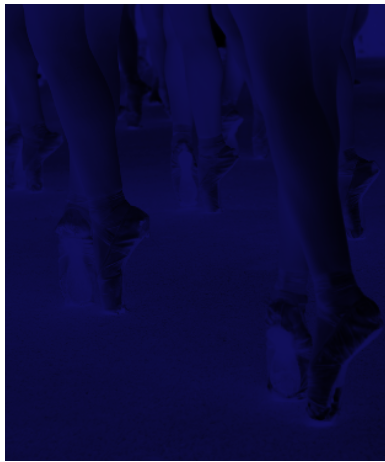
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A strong and sustainable not-for-profit (NFP) sector is important to the Australian economy and community, in many cases delivering vital services to the most vulnerable members of our community. Critically, this sector is served by those acting in directorship roles and participating in the governance of NFPs.

Now in its fourth year, the *Directors Social Impact Study*, has evolved to examine the governance practices and challenges of not-for profit boards as well as gaining further insights into the practices of for-profit boards.

The study asks: How skilled are our NFP directors? How much time do they give to the NFP sector? How well do NFP boards operate? How do they really compare with for-profit boards? What are the biggest challenges NFP organisations face in 2013/14? What do directors want from government to support the sector?