AUSTRALIAN INSTITUTE of COMPANY DIRECTORS

2018

NFP Governance and Performance Study

CommonwealthBank

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About us

The Australian Institute of Company Directors (AICD) is committed to excellence in governance. We make a positive impact on society and the economy through governance education, director development and advocacy. Our membership of more than 43,000 includes directors and senior leaders from business, government and the not-for-profit (NFP) sectors.

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WE'RE FEELING SOCIAL, CARE TO JOIN US?

FOREWORD:

The impacts of innovation, cybersecurity and culture

Welcome to the ninth annual 'Not-for-Profit (NFP) Governance and Performance Study'. The Study remains the largest of its kind in Australia. The generosity of over 2,000 participants in relaying both their experiences and their perceptions of performance provides us with an unparalleled depth of insight.

The findings help the AICD to understand how members in this vital sector are responding to contemporary challenges and to shape our programs. In 2018, we asked about governance issues in innovation, cybersecurity and culture and how they impact your operations and future prospects. In particular for NFPs, vulnerabilities in these areas could expose the missions of our most purpose-driven organisations to unnecessary risk.

Undertaking a psychometric component in this year's Study also has allowed us to understand the mindsets of dedicated NFP directors confronting those challenges, and to compare leadership traits with other sectors.

NFP directors are an essential segment of our member base and we are dedicated to supporting their work. We have continued an important initiative in 2018, providing a range of short-course scholarships for leaders of small NFP organisations across Australia. Those courses are specifically designed for organisations with less than $2 million turnover and are being offered to 20 individuals in each state and territory (140 in total around the country). The scholarships will offer individuals the opportunity to partake in a number of the AICD's education programs, including the NFP Foundations of Directorship.

I congratulate researchers BaxterLawley and NFP Sector Leader, Phil Butler for their tireless efforts compiling and analysing this information. We trust that you and your NFP find this a valuable resource in the coming year.

Angus Armour FAICD
CEO & MD, Australian Institute of Company Directors

Commonwealth Bank – Supporting social impact

This is now the fourth year the Social Impact Sector Banking team at CommBank has supported the 'NFP Governance and Performance Study'. Since it first launched back in 2010, the Study has continued to prove itself to be an important and practical tool for facilitating discussions on key topical issues impacting the NFP sector.

The 2018 Study is set to continue building on the strong reputation the research has gained over the years, as it explores the role of NFP board members in the areas of innovation, cybersecurity and culture, as well as issues facing the aged care sector.

The team, here at CommBank, continues to see how ongoing competitive and resourcing pressures are driving innovative thinking and creativity across the broad social impact community. True innovation supports the growth of sustainable customer, member and community outcomes, as well as supporting greater staff and volunteer engagement and increased productivity.

We've also seen how technology is revolutionising how we communicate and transact with one another. This pace of technological change places extreme pressure on all organisations to maintain technology integrity and, as a result, raises the potential for financial loss, reputational damage and data theft through the increase in cybercrime. Conservative estimates indicate that cybercrime costs the Australian economy in excess of $1 billion each year and, with an expected 30 billion devices to be globally connected by 2020 (or an estimated 4.1 billion users online) the issue of cybersecurity is something no organisation can afford to ignore.

I hope you find that the 2018 Study provides you with valuable insights and ideas to support you in driving key conversations and debates in your own boardroom discussions.

Julienne Price
Head of Social Impact Sector Banking,
Commonwealth Bank of Australia

CommonwealthBank

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INTRODUCTION:

The evolving nature of NFP governance

The launch of the AICD's ninth edition of the 'NFP Governance and Performance Study' is timely, with governance issues firmly in the spotlight.

This presents a tremendous opportunity for governance leaders – including, importantly, the AICD – to reflect on and strengthen the practice of governance.

The findings of last year's Royal Commission into Institutional Response to Sexual Abuse, and evidence emerging to date from the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industries, have highlighted poor practice and misconduct, undermining community trust in the governance of institutes. The role of boards and the expectations of directors are under heightened scrutiny in this context.

Charities and NFPs are not exempt from these debates. This year the Edelman Trust Barometer saw trust in Australian NFPs fall below 50 per cent. Though NFP boards have performed well in the face of complex challenges in the past, more of the same in governance approaches may not be sufficient to address declining trust and increasing community expectations.

Setting the 'tone from the top' on culture is obviously a continuing focus. But there are other important questions for all directors – including those in the NFP sector – to ask.

How fairly and transparently are boards balancing stakeholder interests? How is accountability delivered? What is the right mix of skills, expertise and diversity of thought to enable boards to best meet the governance needs of their organisation? Where should the line sit in providing rigorous oversight of risk and operations while maintaining the separation of board and management?

Our 2018 Study provides valuable insights into how the sector is dealing with this complex environment, including areas that may warrant further attention.

"How is accountability delivered? What is the right mix of skills, expertise and diversity of thought to enable boards to best meet the governance needs of their organisation?"

Key findings

The Study canvases a range of perspectives taken by boards in response to contemporary challenges which directors from any sector cannot afford to ignore, including innovation, cybersecurity and culture. These are governance issues which push boards to focus their energies beyond traditional metrics for performance. Perhaps they were not commonplace on board agendas five or 10 years ago, but in 2018 they are crucial governance considerations for the sector.

The Study's responses illustrate significant variation in how NFP directors are tackling these issues. Monitoring and modelling culture is recognised as a difficult challenge – although three quarters of NFP directors report their organisations are taking steps to actively monitor culture.

On innovation and cybersecurity, the level of board engagement is more divided. More than half of NFP directors report that cybersecurity is either viewed as a purely operational issue or not considered regular board business. Despite many NFP directors feeling their organisation is not as innovative as it should be, a significant proportion of directors are relying on management to set and drive an innovation culture in their organisations.

Positively, 82 per cent of our respondents rate the quality of governance in the sector as improving, and the strong foundations reported in our 2017 survey continue to be evident in our results.

In their final report into institutional responses to child sexual abuse, the Commissioners wrote "There may be leaders and members of some institutions who resent the intrusion of the Royal Commission into their affairs. However, if the problems we have identified are to be adequately addressed, changes must be made to the culture, structure and governance practices of institutions."

The governance debates that will continue in the months ahead have significant implications for the NFP sector. More than 80 per cent of respondents undertake their governance role for no financial reward, and many offer financial and other donations to their organisation to support its mission, in addition to serving on boards. The NFP sector continues to face complex and changing regulatory settings, uncertainty in funding, and increasing service demands, as our review of the NFP aged care sector shows. As expectations and demands on boards and governance evolve, the governance structures and skill sets of the sector will also need to keep pace.

The Study found 58 per cent of respondents said they were working more than two days a month on their NFP, compared to 41 per cent of respondents in 2013.

Our findings show that the directors of NFPs are engaged and committed, with strong foundations in place to meet the governance demands and expectations ahead.

KEY FINDINGS:

Quality of governance

The AICD has been undertaking the 'NFP Governance and Performance Study' for nine years. It is the largest, most comprehensive study of NFP governance in the world and each year it has reported on the steady improvement of governance in the sector.

Corporate governance refers to the systems and processes put in place to control and monitor – or 'govern' – an organisation. Good governance is embedded in the good behaviour and judgement of those who are charged with running an organisation.

Despite the steady improvement in governance over the course of the Study, 2018 analysis shows that 25 per cent of directors are saying that governance is poorer than it should be. Of equal interest is that analysis also shows one third of directors feel that the board performance is better than necessary.

In the context of declining trust levels from the broader community and a fraught regulatory environment, NFP governance is at a critical juncture. NFP boards must endeavour to overcome the complexity of modern governance challenges so that they can achieve their vision for the social good.

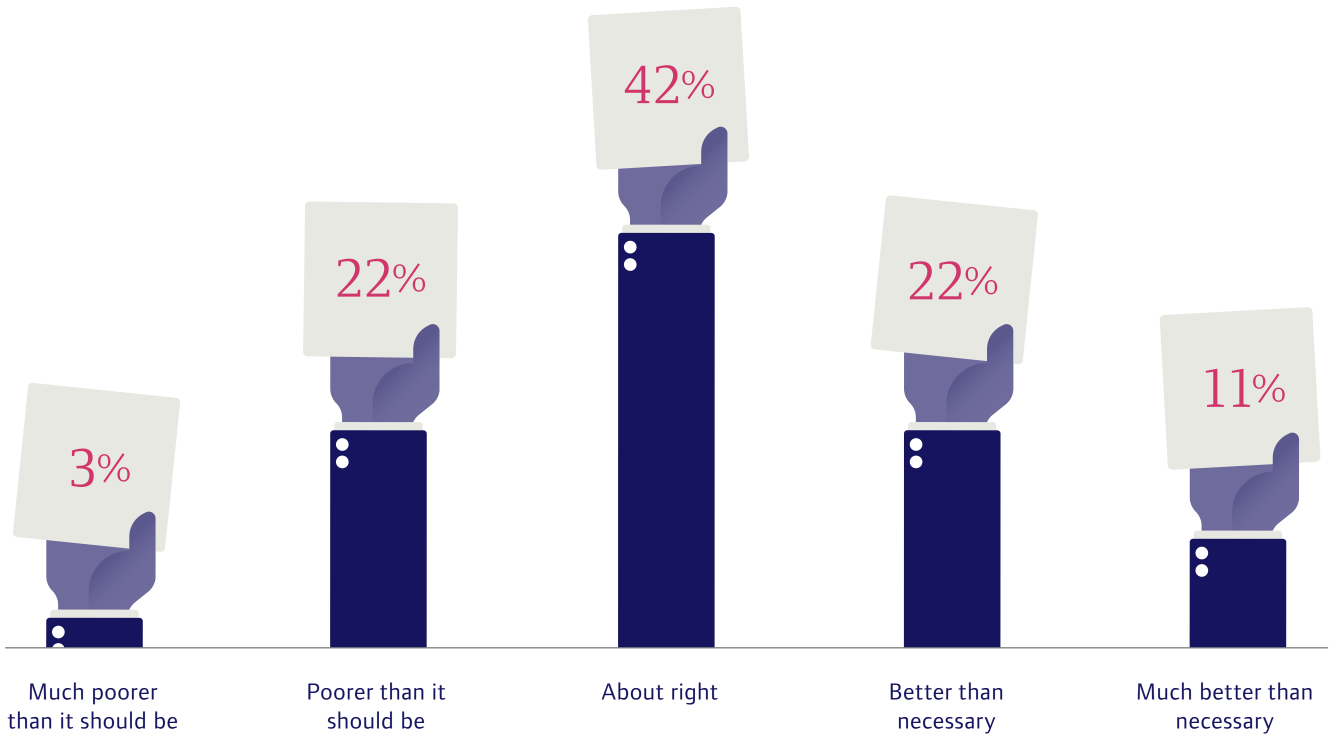
This report offers insight as to how directors are currently approaching those challenges. It takes a closer look at the aged care sector, providing a real-world perspective on where a number of these governance issues converge in a unique and noteworthy way.

Information about the research methodology can be found on page 45.

A quarter of Australian directors believe the governance of their NFP is poorer than it should be.

Figure 1 Directors' rating of their boards performance

(n = 1,465)



QUESTIONS FOR DIRECTORS

1. What does good governance look like for our organisation?
2. Are we focusing on the key issues?
3. Do we spend enough time on the longer term?
4. When will we know we are delivering on our mission?

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1.1 | INNOVATION:

What is the role of directors in innovation?

Innovation can be perceived as an expensive luxury only available to the business sector or traditionally large NFPs with economies of scale. However, the potential for innovation to achieve the social good which motivates the staff, management and board of many NFPs cannot be discounted. Launching the Innovation and Science Australia strategic plan in January 2018, Chair Bill Ferris AC said, "innovation should be celebrated and encouraged in Australia, not feared or tip-toed around like some 'elephant in the room'. Australians are smart enough to know that new technology is inevitable; and most already understand that innovation can enhance our competitiveness and future living standards".

Change and innovation is essential in all organisations, but the amount and type of innovation they can and should undertake varies. Some NFPs, such as sports and social clubs change very slowly – indeed their stability is what stakeholders want. Others are limited in the amount of innovation they can introduce due to compliance or regulatory requirements such as models of clinical care. Alternatively, there are organisations for which innovation is core to their purpose, such as those in medical and education research. Sectors undergoing major reforms will need to be innovative to survive.

Our research found that directors appear to fall into two distinct groups when considering the board's role in innovation. About half believe that innovation is the responsibility of the CEO, who they expect to drive the innovation and report back to board. That is, innovation is mostly an operational issue. The other half see innovation as a responsibility of the board and the board takes an active role in its planning and oversight, and, in some cases, is even more involved.

This section identifies a myriad of reasons why NFP directors feel innovation is not an achievable priority for the board, largely due to more pressing strategic questions like funding certainty. On the other hand, other answers from respondents indicate that in some cases, directors feel innovation has driven their strategic agenda or is in fact a natural element of their ongoing activities.

Regardless of where an organisation sits on the innovation spectrum, the board is responsible for setting and overseeing an innovation agenda as part of strategic planning and monitoring organisational performance. Even for smaller, single-mission organisations, this means keeping pressure on the organisation to improve.

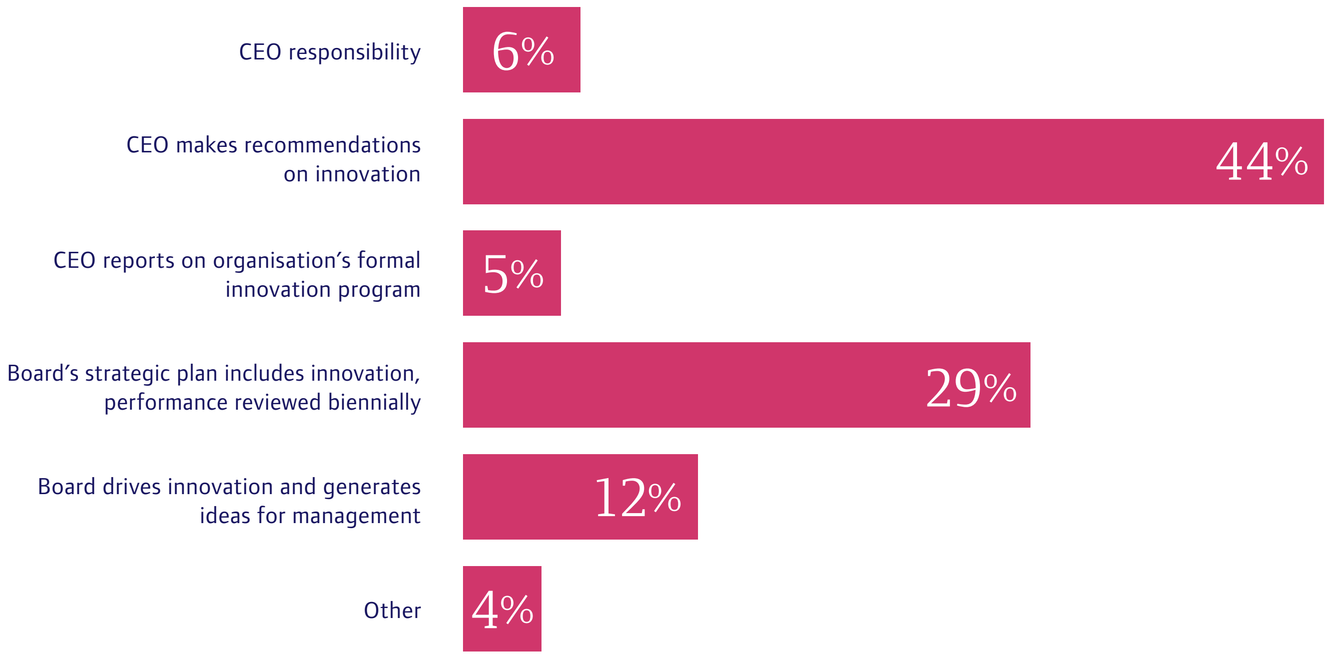
DEFINING INNOVATION

noun | *in·no·va·tion*

For the purpose of the Study, innovation is defined as the implementation of creative ideas. Successful innovation means that the ideas, once implemented, deliver value for the organisation.

Figure 2 Board's role in innovation

(n = 1,354)



"The Board is Missing in Action on this topic."

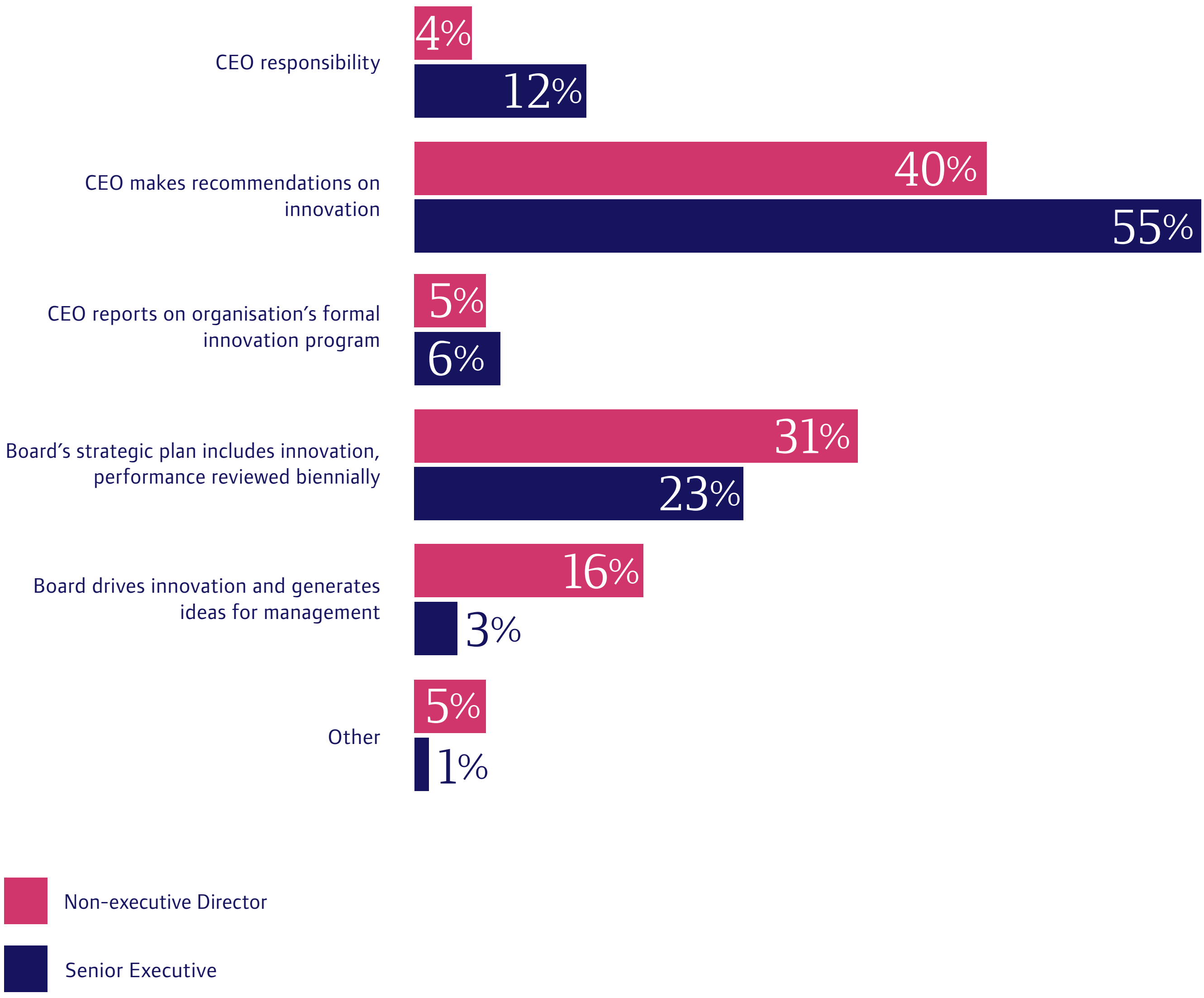
– Survey Respondent

The different perspectives on the board's role in innovation were common across all sizes and sectors of respondents. However, not surprisingly, there is a noticeable difference between the views of non-executive directors (NEDs) and executives. Executives were much more likely to see innovation as their responsibility, rather than a role of the board.

There is the potential for some conflict if there is a difference between the board and executives on the innovation agenda. Where this occurs, it is important for boards and CEOs to deal with any differences in opinion and formally clarify roles.

Figure 3 The difference between NEDs' and Executives' understanding of the board's role in innovation

(n = 1,354)



1.2 | **INNOVATION:**

Barriers to innovation in the NFP sector

There are several factors that can impact levels of innovation, including resources. However, our data reveals that, not surprisingly, there is a correlation between directors' understanding of the board's responsibility for innovation and their rating of their NFP's level of innovation. Nearly half (47 per cent) of directors who reported their organisation had formal innovation programs said they had 'about the right level of innovation'. Where innovation was seen as the responsibility of CEO, this fell to 28 per cent. That is, when boards understand their role, are involved and creating a culture of innovation, organisations are more often getting the level of innovation 'about right.'

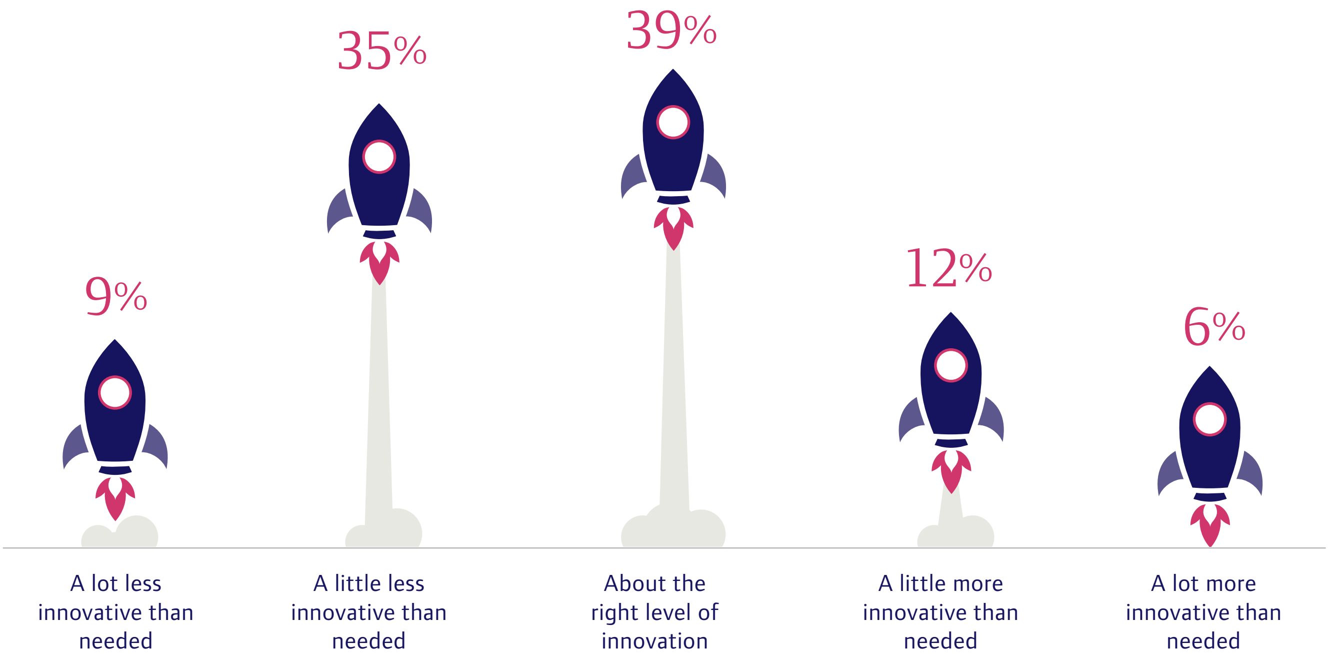
There are other forces impacting levels of innovation. Directors mentioned that their NFP had low levels of net assets and little industry support, and therefore insufficient funding to explore new ideas, let alone implement innovative approaches. Some are also dealing with significant change in their operating environment that not only consumes available funding, but also the human resources needed to lead these, including at the board level. This is a key issue for organisations operating in the human services and education sectors. Directors of disability services organisations commented that all available resources, including board time, is occupied with responding to changes introduced with the National Disability Insurance Scheme and that innovation is a luxury they can not currently afford.

Directors identified another issue unique to the sector: balancing change with tradition and sentimentality. Over time, any community develops traditions and habits that bring structure and order for those living within the community. NFPs are not exempt from these hallmarks and, in fact, given the primacy of some NFPs for the communities they often service, the sentimentality associated with some traditions is even more acutely felt. Though some traditions are worth maintaining when they are important to the culture of the organisation even if they are inefficient (for example, some fundraising events), other traditions are no longer relevant to current social norms or the business needs of the organisation and need to be changed.

Forty-four per cent of directors believe their organisation is less innovative than it should be.

Figure 4 Considering its current operating environment, how innovative is this NFP?

(n = 1,383)



Directors' comments are supported by the survey findings. Eighteen per cent of directors agree that the board has no time to discuss innovation and 45 per cent of directors report that their organisation does not allocate sufficient resources to innovation – either because innovation is not a priority or because the resources are not available.

Given that many directors, particularly executive directors, believe 'the board expects the CEO to continuously improve the performance of the organisation', it is of concern that only 34 per cent of directors believe the board sets clear expectations for innovation.

Nonetheless, directors reported that, despite the difficulties, the underlying culture of their organisations is supportive of innovation. Three quarters of directors agree that 'It's better to try something new and fail than to be complacent' and 64 per cent that staff at all levels are expected to develop innovative ideas.

Which NFPs are the most innovative?

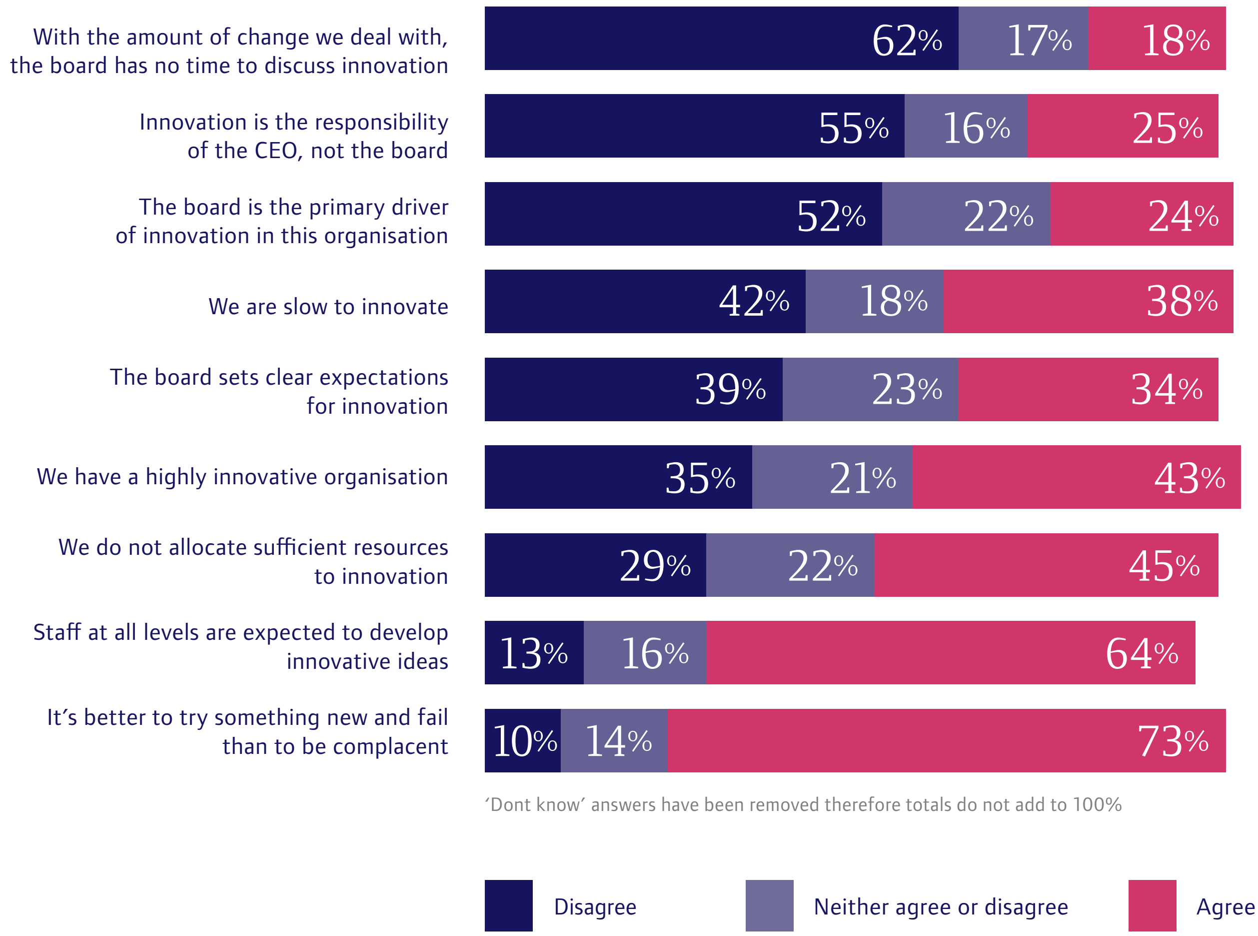
When the results were disaggregated, we found that directors of organisations with income below $1m per year and those with income above $50m per year rated their organisations worse for innovation. For example, 50 per cent of directors of organisations with income over $50m rated their organisations as 'a little' or 'a lot' less innovative than needed.

There is a lot of rhetoric that boards need younger members to drive innovation and the data shows that, indeed, board members under 50 years are more likely to state that their organisation is not sufficiently innovative (52 per cent). However, the results also show that 40 per cent of directors between 60 to 69 years, and 34 per cent of directors over 70 years believe that their organisation is not sufficiently innovative. As always, it is important to assess each director individually and not be led by stereotypes.

Finally, it should be noted that 18 per cent of directors believe their organisation is more innovative than needed. These directors were not leading organisations in any particular sector or of any size and there was no correlation with gender or age.

Figure 5 Directors' views of the culture of innovation

(n = 1,364)



QUESTIONS FOR DIRECTORS

1. Do we want to be an innovative organisation?
2. Is adapting to change core to our purpose?
3. Would technological developments and improvements enable our stakeholders to access better quality of service?
4. How far down the innovation curve do we want to be: a leader, an early adopter or a follower?
5. How often do we hear of mistakes?
6. What happens when mistakes are made?

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2.1 | CYBERSECURITY:

Not enough attention to cybersecurity

At present, more than half of directors report that cybersecurity is either an operational issue or not considered regular board business.

Nevertheless, this does not lessen the role of the board as stewards of the data assets and the technology used to build, store, protect and use them. Nor does the technical nature of the topic reduce directors' obligations regarding data privacy.

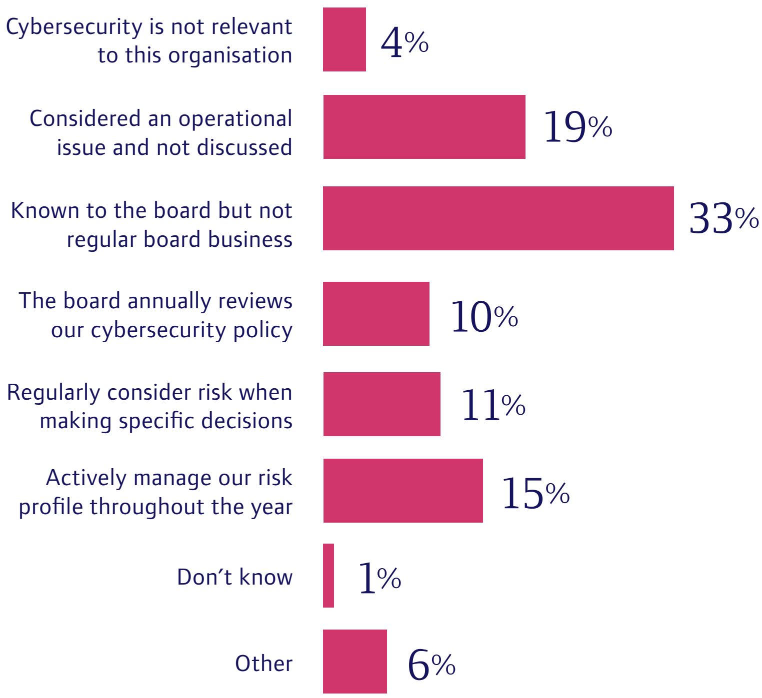
Technological illiteracy or an aversion to jargon is no longer a sufficient excuse for ignoring cyber developments. This is particularly the case for NFPs who often safeguard significant quantities of sensitive information. There is no shortage of examples of cybersecurity breaches across all sectors and the NFP sector is not immune. One example was the widely publicised distributed denial of service attack on the Australian Bureau of Statistics during the 2016 census.

ABS chief statistician David Kalisch FAICD told AICD in January that "Boards would ignore cybersecurity at their peril. Similarly, they also can't substitute cybersecurity for other risks. Essentially, modern boards are facing many risks at the one time and cybersecurity is just another risk that has been added to that list."

This context requires directors to accept that, as with financial literacy and other technically dense elements of their role, some degree of technology literacy is paramount in order to execute their responsibilities proficiently.

Figure 6 Board's role in cybersecurity

(n = 1,345)



2.2 | CYBERSECURITY:

What is the board's role in cybersecurity?

Simply put, cybersecurity involves protecting an organisation's information and related assets from malevolent intent. These assets include data sets, intellectual property and software. The hardware that is used to store and access these can be included or overseen as part of the 'hard' assets of the organisation.

During the 1980s and 1990s, organisations focused on protecting assets from accidental damage and many developed 'disaster recovery' plans. These plans involved building redundancy into software and hardware, data storage and access, so that in the event of a disaster, an organisation could resume services with little down-time. With the growth in the size and value of data assets and their accessibility via the internet, protecting data assets from those who would remove, copy, control or destroy them has arguably become the higher priority. The probability of a loss from attack is now higher than a loss from accidental damage.

The board's role in protecting data assets (i.e. cybersecurity and disaster recovery planning) is no different to its role in protecting other assets, such as buildings, equipment and machinery. It must understand the value of the asset, put in place measures to protect the assets from harm and plan how it will react if something goes wrong.

Based on the findings from this year's survey, it is clear that most boards have a long way to go to meet this obligation. To put these findings into context, if we received similar answers regarding financial literacy, Occupational Health and Safety (OH&S) or the oversight of other assets, we would have serious concerns about the quality of governance.

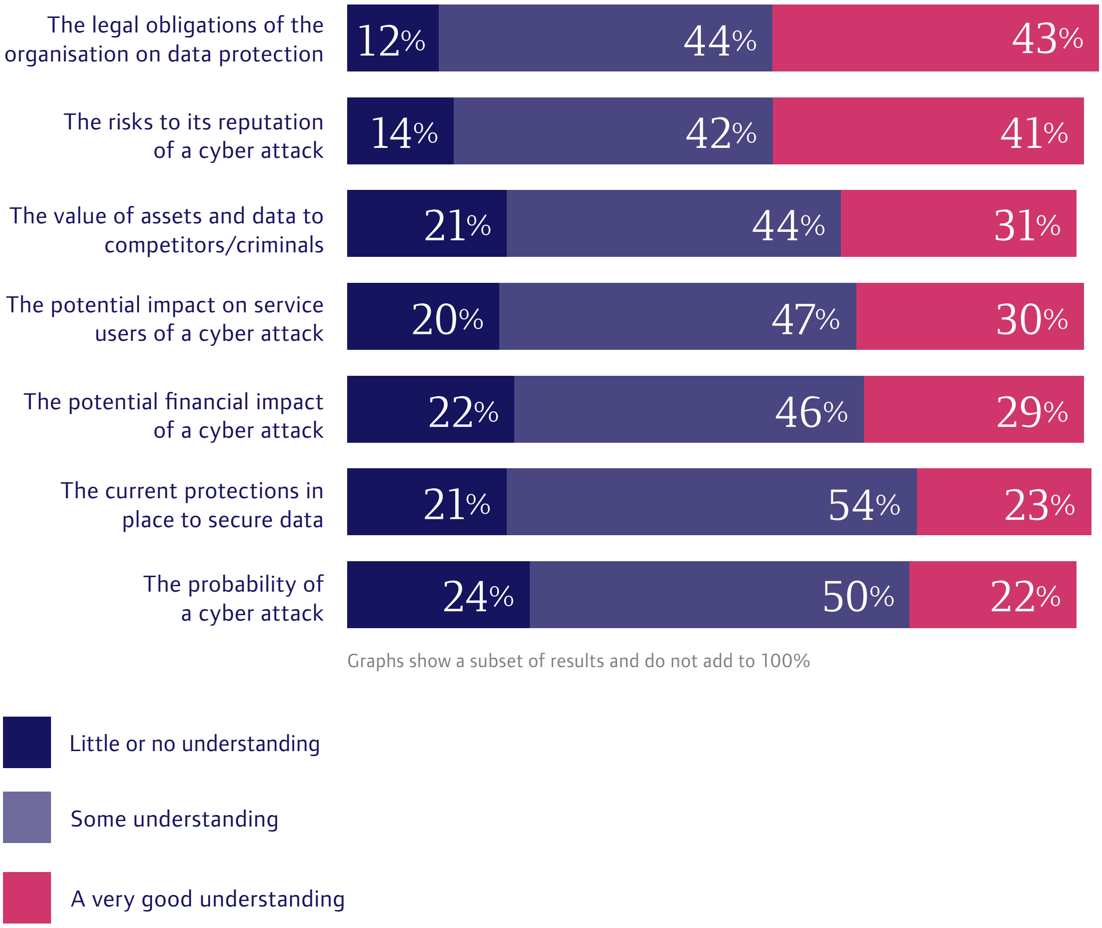
Specifically, less than half of directors reported they had a 'very good' understanding of any of the attributes of cybersecurity examined. The organisations with the worst knowledge of cybersecurity and most likely to state it is an operational issues were typically smaller, with annual turnover under $5m and in the culture and recreation, education, and business and professional associations sectors.

Overall, only 38 per cent of chairs reported that their board had 'a very good understanding' of the impact of a cyber attack on service users and 25 per cent of the probability of a cyber attack on their organisation.

Directors of organisations holding personal data that falls under the jurisdiction of the Privacy Act 1988 will have additional obligations.

Figure 7 Boards' understanding of cybersecurity

(n = 1,386)



"The board is aware of cyber risk and mandatory reporting of data breaches, but there is more work to do to improve the organisation's position."

– Survey Respondent

> “The Board is conscious of cybersecurity issues, has received presentations on the subject from management and has recently approved external review including penetration testing. The entity has established an appropriate policy.”
>
> **– Survey Respondent**

QUESTIONS FOR DIRECTORS

1. Is a review of cybersecurity on your board calendar?
2. Can a board identify the value of data assets i.e. cost of replacement, cost of loss to service provision or impact on reputation?
3. Do you know your own and your organisation’s legal obligations in relation to cybersecurity and data privacy?
4. Are your data assets subject to a risk assessment? Do you have specialist support to qualify the risks they are exposed to?
5. Are there immobilisation/encryption options available in the event of a breach?
6. Are strong cyber-safety habits common and reinforced across the organisation?
7. Is loss or impairment of data assets and breaches of security protocols reported to the board quickly?
8. Are you regularly investing in your cyber knowledge and skills?

CULTURE

CULTURE

3.0

3.1 | **CULTURE:**

Who are we really?

The effectiveness of boards in defining and overseeing culture is a highly topical issue and has been raised in a number of forums. In the 2017 Study, culture was specifically addressed for the first time and this year we are exploring the issues in more depth.

Last year we asked directors about their board's current role in monitoring culture and found that only a third of directors reported that their boards actively oversee culture and only 43 per cent reported that their culture is monitored well.

Not surprisingly, this correlates with the finding that only 45 per cent of directors believe that the importance of culture is 'clearly recognised by the board, defined and embedded in process and decision making'.

It is evident that getting culture right and keeping it right is a major challenge for many organisations. Even when boards are fully aware of their responsibilities and the impact of culture on organisational risk and performance, many still struggle to get the desired focus and action in the boardroom and, in some cases, fail to prevent major cultural failures. Why are boards not doing more? Why are they not getting it right more often? Importantly, who is getting it right and what are they doing?

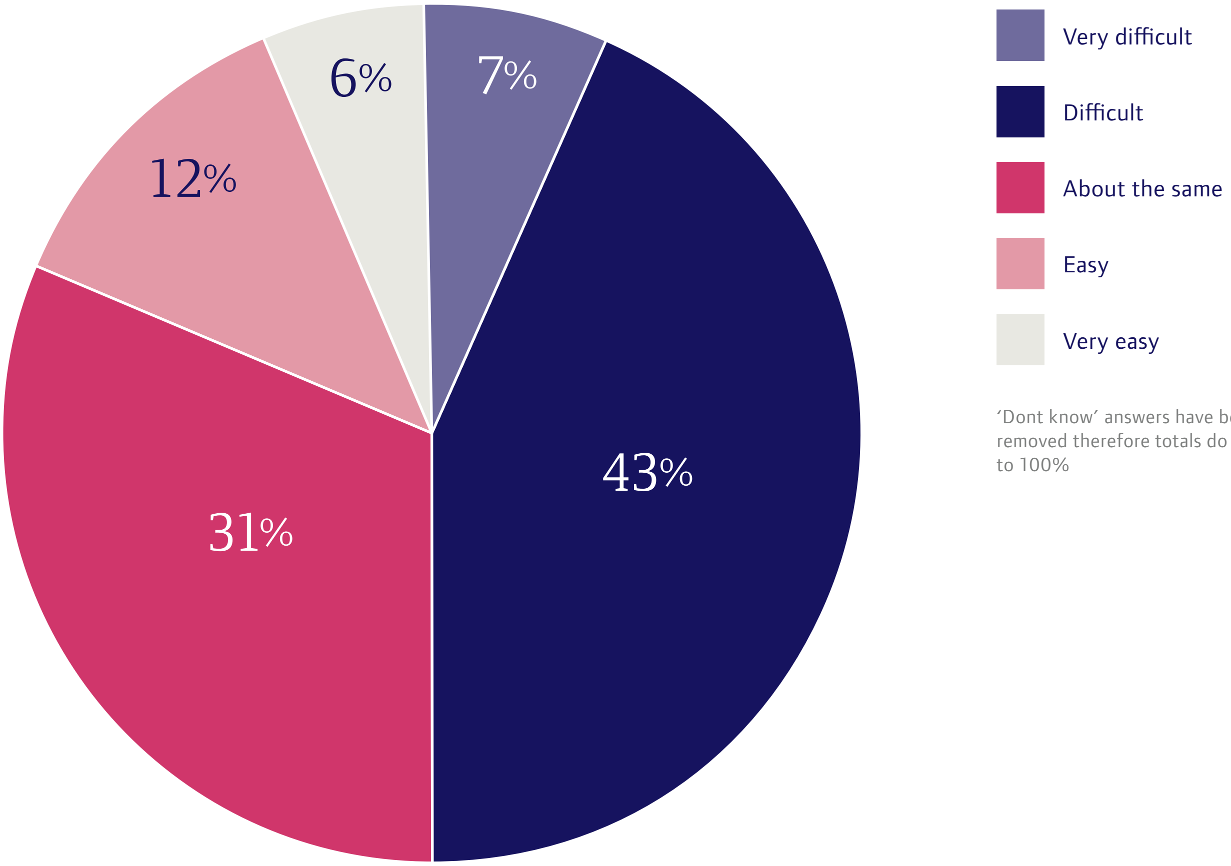
In answering these questions, the first issue to be acknowledged is that organisational culture is complex and dynamic.

There may also be a range of different cultures across various parts of an organisation. Boards may have limited visibility of undesirable cultural traits depending on the information they receive, but that need not be the case. Directors need to probe management to ensure the wellbeing of staff who serve NFPs is not at risk due to opaque governance structures or stifled information flow. It's precisely because of the dedication, stature or intense motivation of important individuals in the sector that staff can be willing to accept otherwise unacceptable cultural norms.

Half of all directors said that, compared with financial outcomes and strategy, controlling culture is 'difficult or very difficult'. Not surprisingly, there is a strong correlation between the difficulty in managing culture and the number of employees. Sixty-five per cent of directors of organisations with 1,000 or more staff believe that management of culture is difficult or very difficult. Only 10 per cent said they found it 'easy' or 'very easy'.

Figure 8 How easy is it for the board to control culture, compared to things such as financial outcomes and strategy?

(n = 1,420)



'Dont know' answers have been removed therefore totals do not add to 100%

DEFINING CULTURE

noun | cul·ture

For the purposes of the Study, an organisation's culture is defined as the values, principles and behaviours that form the mindset of the organisation.

A strong organisational culture allows both internal and external stakeholders to better predict and manage the behaviour of those who work in the organisation.

3.2 | CULTURE:

How are boards monitoring and managing culture?

Directors in our focus groups told us measuring culture is comparatively expensive, imprecise, incomplete and indirect. Yet 75 per cent of directors (and 97 per cent of organisations with more than 100 employees) reported that their NFP uses one or more instruments to produce metrics on culture.

Small organisations (those with turnover over less than $250,000) are less likely to measure culture; 25 per cent of respondents stated that they do not have a formal means of measurement. It would appear that the boards of these smaller organisations are 'closer' to the action and have a better 'feel' of the culture.

The most frequently used methods are staff surveys (45 per cent), staff turnover and dismissal data (41 per cent) and client surveys (40 per cent). The fact that organisations use a range of different measurement metrics illustrates both their desire to measure culture and that no single metric provides the information they need.

Directors in our groups frequently mentioned that the lack of reliable or even meaningful data on culture discouraged boards from addressing this issue. Instead, boards focus on the things they feel they can 'see' and control, such as financial performance, implementation of strategy, marketing and risk.

Figure 9 Top five methods used to measure culture

(n = 1,389)

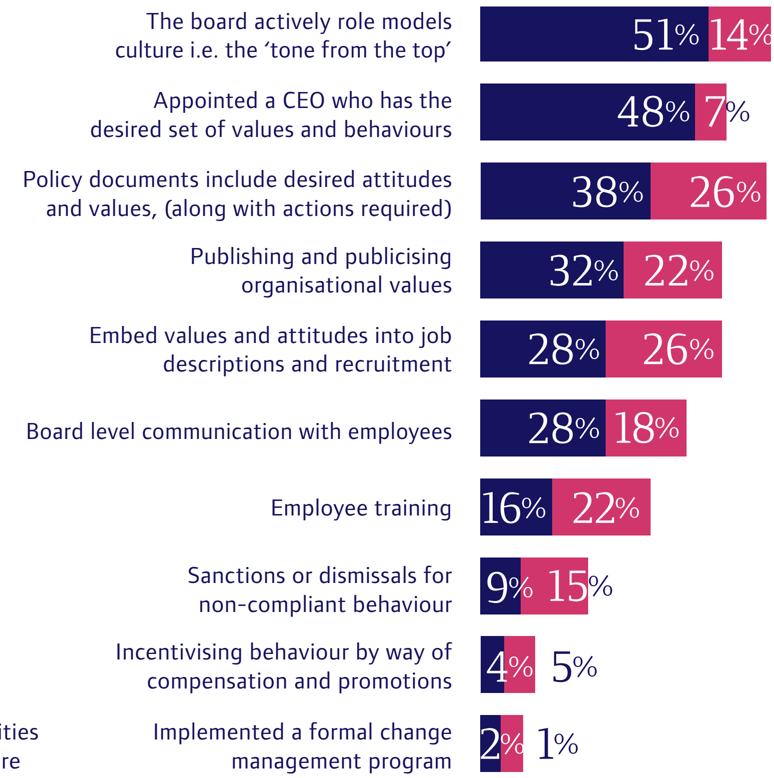
45%	41%	40%	35%	33%
Staff survey results	Staff turnover and dismissals	Client survey results	OH&S reports	Client complaints

Not only do directors feel that they have limited visibility of culture, but that they also have few effective tools to control it – and these are mostly blunt edged. The tools used most are role modelling by the board and CEO selection. Appointing a CEO who has the desired set of values and behaviours is clearly essential.

If awareness of the board is strong within an organisation, and sometimes this is not the case, so too will awareness of moral character and ethical standards when appointing new board members. Though intuitive, this need intersects with the challenges of attracting talented directors to typically unpaid director positions.

Figure 10 How boards control culture

(n = 1,347)



Top three ways we manage culture

Additional activities to manage culture

QUESTIONS FOR DIRECTORS

1. Do we know what our role is in leading culture?
2. Do we spend enough board time in monitoring culture?
3. Do we know what culture we want to have?
4. Do we know what culture we do not want to have?
5. Does our CEO and senior management embody that culture?
6. How quickly does news (particularly bad news) travel in the organisation?
7. Is poor performance and behaviour dealt with appropriately?
8. How visible is the board to staff at all levels of the organisation?
9. Do we have the right policies in place to assist with culture (e.g. whistleblower policies)?
10. Are our communication channels appropriate?

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4.1 | AGED CARE:

Major changes placing aged care sector under more pressure

In Australia, there are over 2,000 providers of aged care services, of which almost half provide residential care. Approximately half of the aged care subsector are NFP organisations.[1] In 2015/2016, the total revenue for the aged care sector was $21.5b, an increase of 8.6 per cent over the previous year. The Commonwealth Government provided $16.2b or 75 per cent of this revenue.

Demand for aged care services is growing, and is expected to continue. At present there are over 100,000 people waiting for a home care package and a further 83,500 beds will be needed by 2028.

The aged care sector is in the middle of a ten-year reform program that commenced in 2013.

Some of the key changes include:

- Changes to home care packages and the full implementation of consumer directed care. Funding is now provided to individuals, who now have more say over the services they want and from which provider. Many new providers of home care services entered the market in 2017/18.
- The Commonwealth Government controls the supply of aged care by capping the number of residential beds and home care packages available. Providers had geared up to provide home care. However, the slow release of high care packages, long waiting lists and underspending by care recipients is reducing service availability and putting service provider margins under pressure. From 1 July 2018, residential and home care programs will also be combined, which may put further pressure on both services.
- Reduction in the rate of funding increases and profits. The aged care sector has been recording EBITDA of over 10 per cent and profit margins of 6.2 per cent, but there are signs of this slowing as a result of changes to the Aged Care Funding Instrument (ACFI) while expenses increase at well above the rate of inflation.

In addition to the above, there is ongoing media scrutiny of the sector across a range of areas including clinical supervision, service quality and financial practices. Aged care providers are regularly reviewed to assess quality and must comply with regulations regarding the pricing and payment of bonds and services. However, when a single organisation is found to have provided poor service or is acting unscrupulously regarding financial agreements or controls, this brings the whole sector into disrepute.

1 Australian Government, Aged Care Financing Authority. Fifth Report on Funding and Financing of the Aged Care Industry. July 2017.

Our aged care directors

A total of 130 directors of aged care organisations responded to the survey. We also undertook two focus groups with directors from aged care organisations.

As is typical of the sector, the directors who responded to our survey reported that their organisations provide a broad range of services. The majority (81 per cent) provide residential aged care services, 73 per cent provide home care services, 65 per cent provide independent living units and 56 per cent provide community services.

Compared with the overall results from respondents, directors of aged care providers:

- Are working for larger organisations: 34 per cent reported their organisation employed more than 1,000 staff and had income of over $50m. A further 31 per cent reported annual income of over $10m.
- Gave the same rating of the effectiveness of their organisation as directors working other sectors.
- Were more likely to report their organisation made a profit. Seventy six per cent of directors reported that on average their NFP made a profit over the last three years (compared with 61 per cent of directors in other sectors). However, only 64 per cent of directors of aged care expect their organisation will make a profit this financial year.
- Gave the same rating of the performance of their board as directors in other sectors.
- Had more discussions about mergers (55 per cent, compared with 34 per cent for directors in other sectors) and reported higher rates of mergers in the last 12 months (9 per cent, compared with 6 per cent for directors in other sectors).
- Are more likely to be remunerated (29 per cent, compared to 17 per cent of others), which reflects the larger size of organisations.

The three most significant concerns for aged care providers are maintaining financial sustainability in an environment of decreasing funding, increasing infrastructure (new facilities) to grow service volumes, and improving the workforce.

In comparison to other board members, few directors in aged care mentioned lobbying government for reform. This may reflect the larger number of advocacy bodies supporting the sector, which directors believe is resulting in a more fragmented approach.

Figure 11 Top three priorities for aged care providers

(n = 109)

45% Financial sustainability due to low/no increase in funding (ACFI)

39% Building new facilities (growth)

38% Improving our workforce – recruitment and retention

SNAPSHOT 2016/17[1]

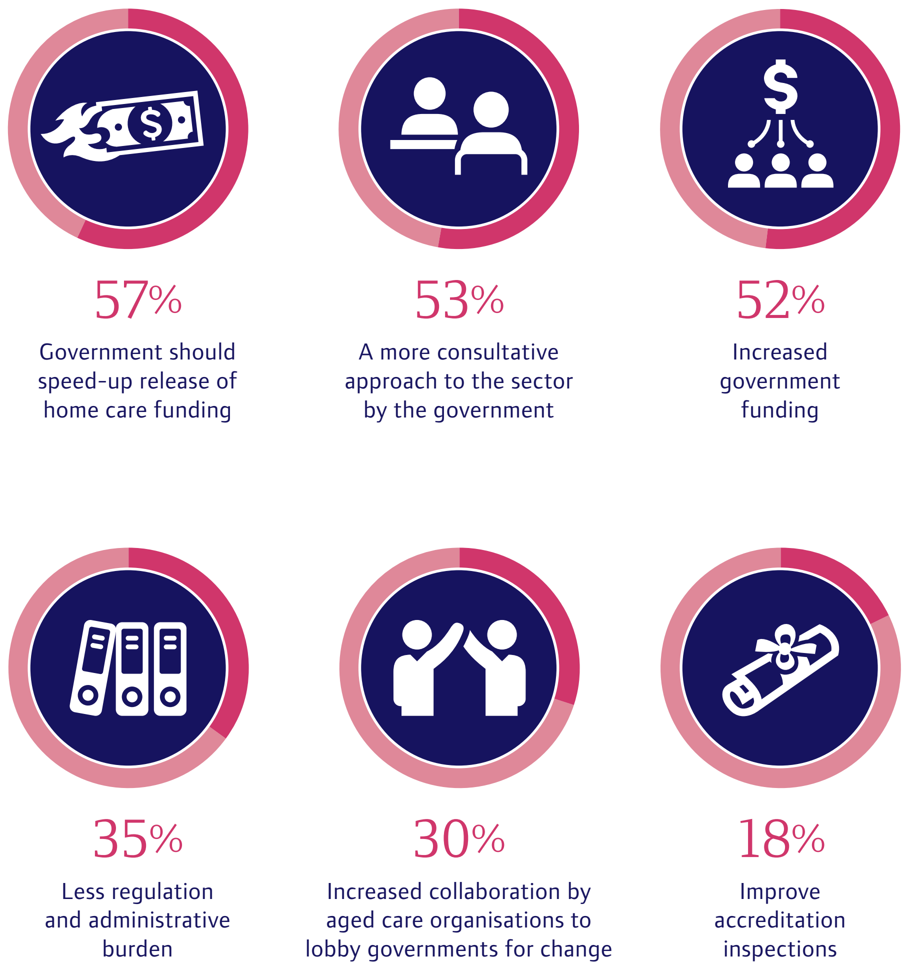
- Population of Australia: **24.8m**
- Number of people receiving care: **1.3m**
- Number receiving residential aged care: **234,931**
- Number receiving Home Care Package: **88,875**
- Number receiving CHSP or HACC: **925,000**
- Number of residential aged care providers: **949**
- Number of NFP organisations in aged care: **512** (56 per cent)
- Total Commonwealth Government funding 2015/2016: **$16.2bn**. Estimated to increase to $20.8bn by 2019/20.
- Consumer spending: (excluding deposits) **$4.7bn**
- Number independent living units (retirement village units): **141,600***

Echoing the major policy issues outlined on the previous page, directors of aged care organisations want government to release more home care funding, improve their consultation with the sector and increase the overall amount of funding to aged care. The Federal Budget 2018-19 announced increases in aged care funding of $5bn for 2018/19 and out-years. This includes increasing funding for creation of the Aged Care Quality and Safety Commission and improvements to aged care in regional and remote areas.

However, as a result of reductions in funding in other areas of the portfolio (for instance, changes to the scoring matrix of ACFI and indexation of the complex health component), the net result may be a reduction in funding for the sector. These new policies support the government's longer-term goal to increase the proportion of user-paid services through means testing and other programs. This is essential to avoid the budget blow-out that would result from Australia's aging population and diminishing workforce. However, these policy shifts are already putting the sector under pressure.

Figure 12 Top priorities for policy reform identified by aged care directors

(n = 109)



DID YOU KNOW?

Awareness of the 'Safe Harbour' legislation

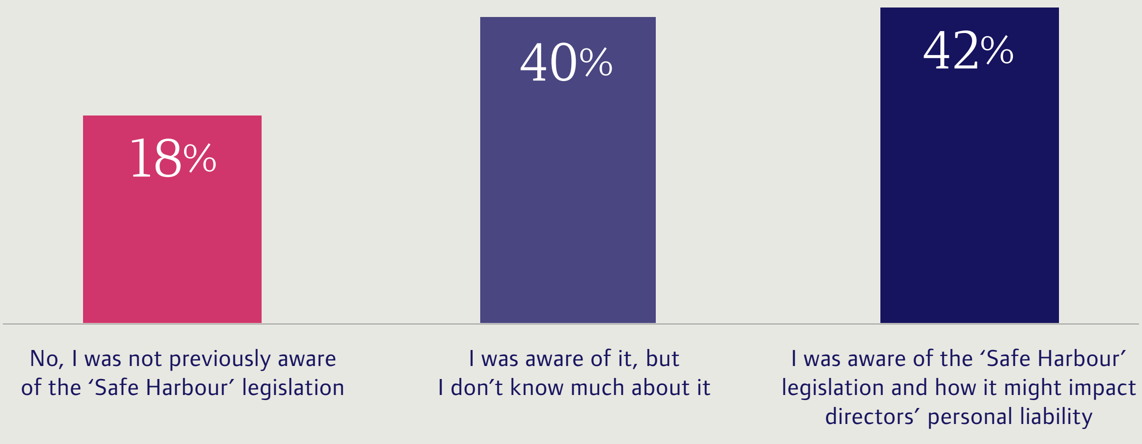
In September 2017, Parliament passed the Treasury Laws Amendment (2017 Enterprise Incentives No. 2) Bill 2017, which amends the Corporations Act 2001 (Cth).

The revisions to the Corporations Act meant directors of companies in financial distress will be able to rely on the safe harbour protection if they start developing one or more courses of action that are 'reasonably likely' to lead to a 'better outcome for the company than the immediate appointment of an administrator or liquidator'.

The AICD believes this reform has the potential to energise business and the economy by enabling directors to take common sense steps to rehabilitate distressed organisations.

Less than half of directors are aware of the 'Safe Harbour' legislation and how it might impact directors' personal liability. Senior executives are less aware of the legislation than non-executive directors, but there was no difference in awareness between those who are the chair of the board and other directors.

The AICD has been running a communications strategy and information sessions to improve directors' awareness of the legislation and its impact. We will continue to monitor awareness over the next year.



For those looking for more information on the 'Safe Harbour' legislation and how it impacts you, please see companydirectors.com.au

What do we know about our NFP directors?

This year, for the first time, we examined the attributes of board behaviour and director personality and how these relate to the performance of NFP boards.

When reviewing this information, it should be noted there may be a difference between what people say and what they do. Furthermore, as someone's awareness of the attributes of high performance increases, their rating of their own understanding or skills can decline. As such, the variations these metrics demonstrate are useful for ranking the impact of attributes on performance, but the overall results do not provide a definitive measure of how well boards are performing.

Directors rate their boards highly

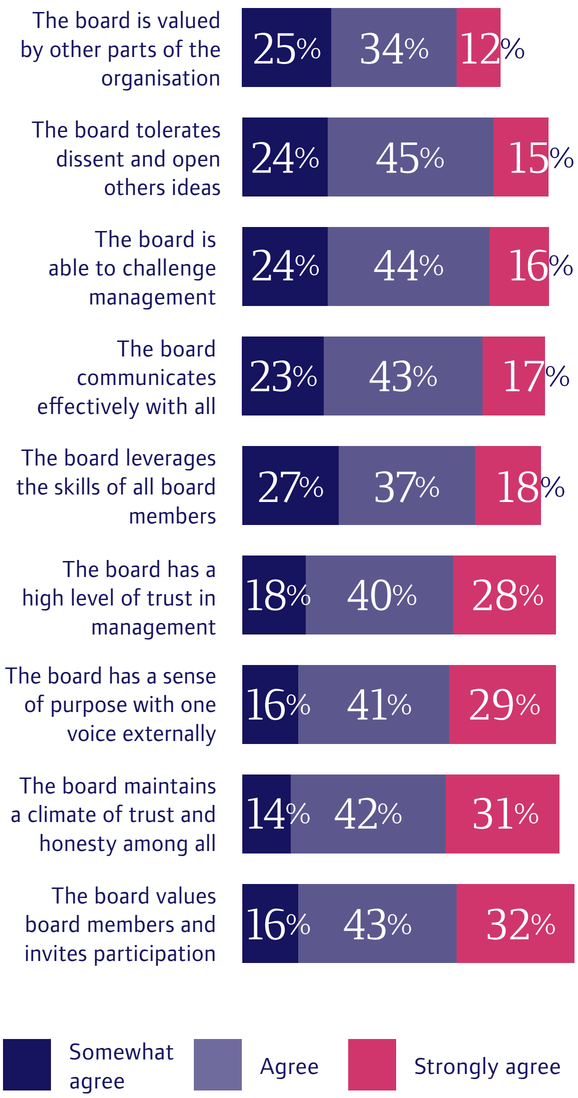
The results from the survey suggest that the anecdotal evidence of the extent of poor board behaviours is overstated. The majority (over 80 per cent) of directors agreed with all of the statements reporting that their board maintains a climate of trust, has a common sense of purpose, communicates effectively and is open to different points of view.

However, the findings do show some variation, with significantly fewer directors rating 'strongly agree' to statements about trust in management, communication within the board, willingness and frequency of challenges to management, and tolerance of dissent. Respondents identified with the impacts of board behaviour, with 52 per cent saying board members failing to prepare for meetings rendered board performance much poorer than it should be.

Importantly, fewer directors agreed that 'the board is highly valued by other parts of the organisation'. This last finding has a number of implications. As reported earlier, role modelling of the desired behaviours is one of the main ways in which directors believe the board controls culture. If boards are not valued, the effectiveness of role modelling is reduced.

Figure 13 Board dynamics

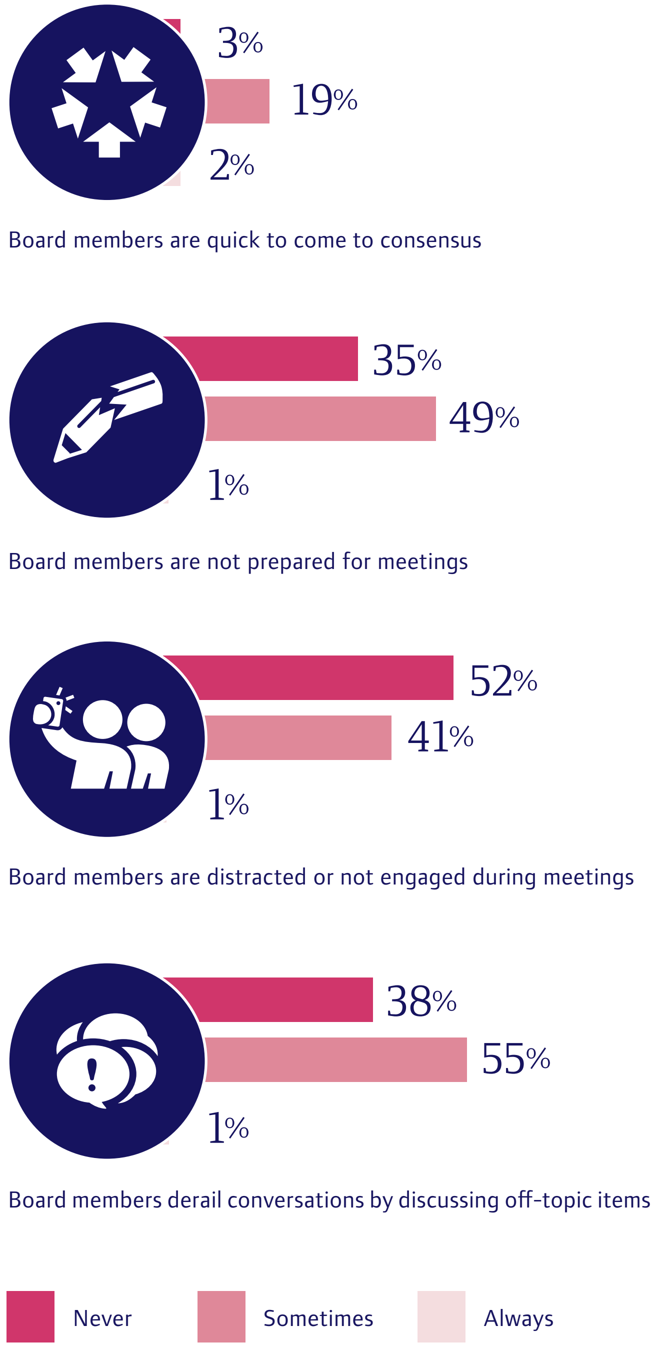
(n = 1,440)



'Dont know' answers have been removed therefore totals do not add to 100%

Figure 14 Directors assess their board's behaviours

(n = 1,440)



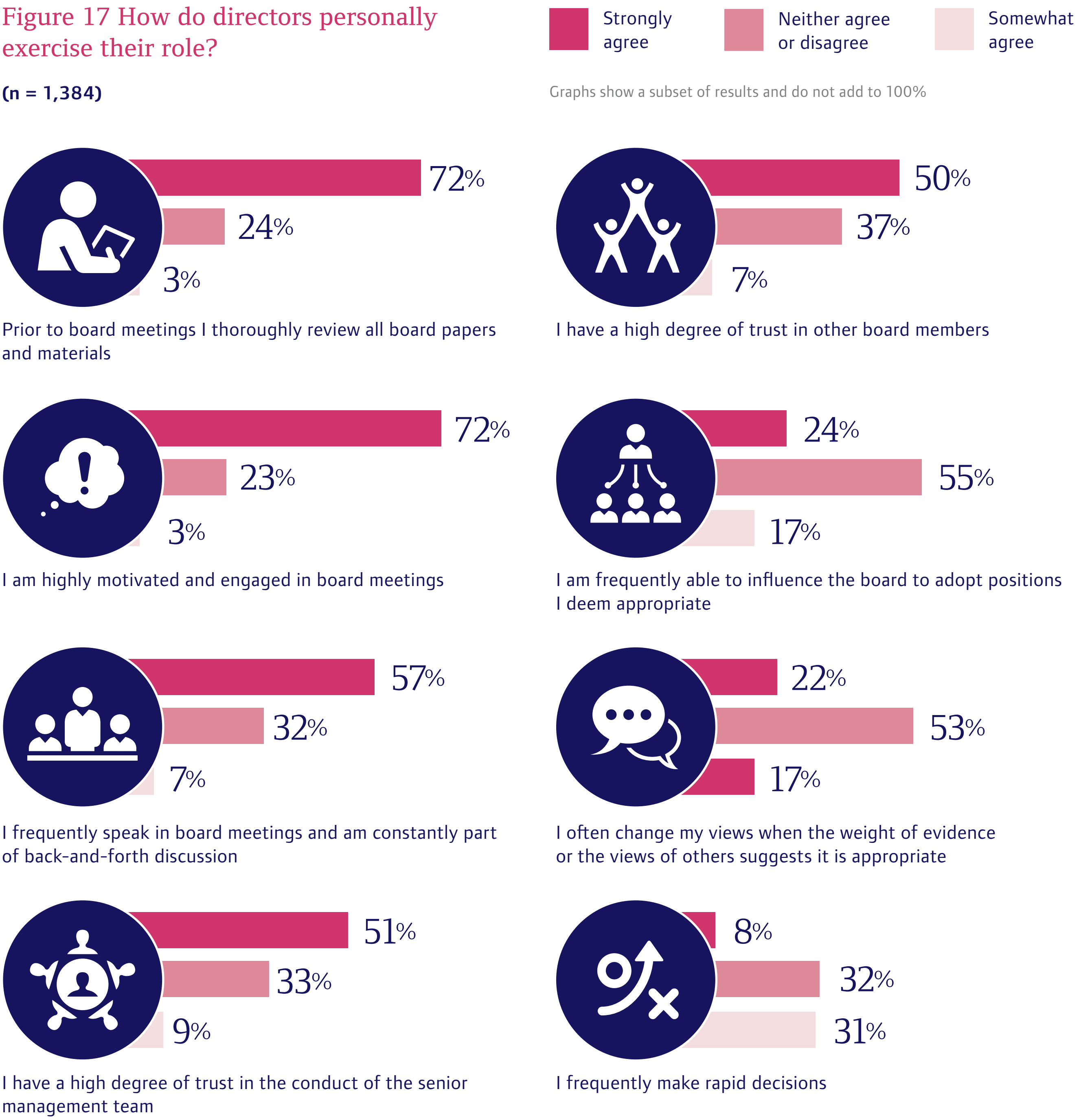
Graphs show a subset of results and do not add to 100%

Directors' self-rating of their own performance is even more positive

Directors are more positive about their own contribution than that of others. Nearly all directors (96 per cent) say they thoroughly review all board papers and materials prior to board meeting – with 72 per cent strongly agreeing to this statement. Similarly, 89 per cent agree that they frequently speak in board meetings and are constantly part of the back-and-forth discussion.

Figure 17 How do directors personally exercise their role?

(n = 1,384)



And what about director personality traits?

Does it take more than skills and a good resume to be a good NFP director? Or is it IQ or EQ or something else that makes one person more effective than another?

Organisations invest heavily in assessing the skills and traits of CEOs and senior executives, yet few screen potential directors to the same degree. With the steady increase in director responsibility and accountability (particularly in regard to complex areas, such as cybersecurity and culture), and an increase (albeit slow) in director remuneration, it is likely that the larger NFPs will seek to better understand director personality and seek those with the attributes that will result in higher board effectiveness.

This year, the Study included a pilot analysis of director personality traits, with the aim of identifying any correlations between certain personalities and performance.

In the future, a longitudinal view of these data points will produce greater insights for the sector.

We included a widely-used, standardised test of personality traits and our questions were answered by over 1,400 directors nationwide. It is our understanding that this is the largest study of director personality traits ever undertaken.

How do directors compare with the rest of the population?

Compared to the average member of the Australian public, the average Australian NFP director is neither extroverted nor introverted, tends to be slightly more agreeable, is highly conscientious, not neurotic and tends to be more open to experience. Not surprisingly, their profile is close to that of business school graduates.

The following pages contain a breakdown of some detailed question responses for reference.

Breakdown of sample set

<table>
<tr><th></th><th>2013</th><th>2014</th><th>2015</th><th>2016</th><th>2017</th><th>2018</th></tr>
<tr><td>**Total sample**</td><td>**2,190**</td><td>**3,210**</td><td>**2,976**</td><td>**1,822**</td><td>**1,928**</td><td>**2,022**</td></tr>
<tr><td>**NFP income**</td><td>**1,198**</td><td>**2,265**</td><td>**2,471**</td><td>**1,478**</td><td>**1,491**</td><td>**1,627**</td></tr>
<tr><td>Under $100k</td><td>7%</td><td>7%</td><td>7%</td><td>4%</td><td>4%</td><td>4%</td></tr>
<tr><td>$100k to $250k</td><td>7%</td><td>7%</td><td>6%</td><td>5%</td><td>5%</td><td>5%</td></tr>
<tr><td>$250k to $500k</td><td>7%</td><td>8%</td><td>8%</td><td>7%</td><td>6%</td><td>5%</td></tr>
<tr><td>$500k to $1m</td><td>6%</td><td>7%</td><td>8%</td><td>7%</td><td>7%</td><td>6%</td></tr>
<tr><td>$1m to $2m</td><td>8%</td><td>11%</td><td>10%</td><td>12%</td><td>12%</td><td>10%</td></tr>
<tr><td>$2m to $5m</td><td>15%</td><td>15%</td><td>16%</td><td>16%</td><td>16%</td><td>15%</td></tr>
<tr><td>$5m to $10m</td><td>11%</td><td>11%</td><td>11%</td><td>12%</td><td>13%</td><td>13%</td></tr>
<tr><td>$10m to $20m</td><td>12%</td><td>11%</td><td>12%</td><td>11%</td><td>12%</td><td>13%</td></tr>
<tr><td>$20m to $50m</td><td>15%</td><td>11%</td><td>10%</td><td>12%</td><td>11%</td><td>13%</td></tr>
<tr><td>$50m+</td><td>12%</td><td>12%</td><td>11%</td><td>14%</td><td>13%</td><td>15%</td></tr>
<tr><td>Don’t know</td><td>0%</td><td>1%</td><td>0%</td><td>1%</td><td>1%</td><td>1%</td></tr>
<tr><td>**Main sector of operations**</td><td>**1,199**</td><td>**2,240**</td><td>**2,475**</td><td>**1,500**</td><td>**1,504**</td><td>**1,611**</td></tr>
<tr><td>Culture and recreation. Includes arts and sport</td><td>10%</td><td>11%</td><td>15%</td><td>9%</td><td>10%</td><td>10%</td></tr>
<tr><td>Education and research. Includes primary, secondary, higher and vocational education</td><td>19%</td><td>17%</td><td>14%</td><td>14%</td><td>14%</td><td>14%</td></tr>
<tr><td>Health. Includes hospitals, rehabilitation, nursing homes (other than aged care), mental health treatment, crisis intervention, public health and wellness education, health treatment, primarily outpatient, rehabilitative medical services and emergency services</td><td>14%</td><td>15%</td><td>21%</td><td>18%</td><td>18%</td><td>17%</td></tr>
<tr><td>Social services. Includes child and youth welfare, disability services, emergency and relief, homelessness and income support</td><td rowspan="2">20%</td><td rowspan="2">20%</td><td rowspan="2">18%</td><td rowspan="2">26%</td><td rowspan="2">28%</td><td>20%</td></tr>
<tr><td>Aged care. Includes residential and non-residential aged care</td><td>8%</td></tr>
<tr><td>Environment. Includes animal protection</td><td>3%</td><td>3%</td><td>2%</td><td>4%</td><td>3%</td><td>3%</td></tr>
<tr><td>Development and housing. Includes economic and social and community development in communities, housing assistance, employment and training</td><td>3%</td><td>3%</td><td>5%</td><td>4%</td><td>4%</td><td>3%</td></tr>
<tr><td>Law, advocacy and politics.</td><td>1%</td><td>2%</td><td>2%</td><td>2%</td><td>2%</td><td>2%</td></tr>
<tr><td>Philanthropic intermediaries and voluntarism promotion. Includes fund raising, grant making foundations and supporting volunteering</td><td>3%</td><td>2%</td><td>2%</td><td>3%</td><td>2%</td><td>3%</td></tr>
</table>

	2013	2014	2015	2016	2017	2018
International activities. Includes promotion of social and economic development, cultural exchange, international disaster and relief, human rights and peace organisations overseas	2%	2%	3%	3%	3%	2%
Religion. Includes congregations and associations of congregations	2%	2%	2%	2%	2%	3%
Business and professional associations. Includes labour unions	8%	8%	7%	6%	6%	8%
Not elsewhere classified	15%	16%	10%	8%	9%	7%

Structure	**1,193**	**2,261**	**2,477**	**1,195**	**1,445**	**N/C**
Company Limited by Guarantee	44%	44%	47%	51%	51%	
Incorporated Association	34%	38%	38%	34%	35%	
Unincorporated Association	2%	3%	3%	3%	2%	
Body Corporate	1%	2%	2%	1%	1%	
Cooperative	1%	N/C	N/C	1%	0%	
Organisation established by Act of Parliament or Royal Charter	8%	N/C	N/C	6%	6%	
University Senate/Council/ Board	7%	3%	2%	1%	1%	
Don't know		1%	2%	1%	1%	
Other	4%	9%	7%		2%	

Charitable status	**1,100**	**2,100**	**2,305**	**1,370**	**1,442**	**1,626**
Registered charity	45%	49%	58%	70%	70%	71%
Deductible Gift Recipient	56%	56%	61	N/C	N/C	N/C

Sources of income	**1,198**	**1,642**	**2,482**	**1,437**	**1,458**	N/C
State/Territory Government	17%	19%	18%	19%	23%	
Commonwealth Government	21%	20%	18%	21%	20%	
Local Government	2%	3%	2%	2%	N/C	
Donations (individual or corporate)	8%	11%	12%	12%	17%	
Sponsorships	7%	7%	8%	4%		
Fees for service (e.g. school fees, service fees, insurance premiums)	13%	12%	12%	14%	29%	
Membership fees or levies	12%	10%	14%	11%		
General commercial activities (e.g. retailing, consulting services)	11%	10%	8%	8%		
Returns from investments	6%	5%	6%	4%	N/C	
Other	2%	2%	3%	4%	9%	
Don't know	1%	1%	1%	1%	1%	

	2013	2014	2015	2016	2017	2018
Overall rating of effectiveness					**1,419**	**1,577**
Highly ineffective	N/C	N/C	N/C	N/C	4%	2%
Mostly ineffective					3%	2%
Somewhat ineffective					2%	2%
Neither in effective nor effective					1%	1%
Somewhat effective					13%	15%
Mostly effective					42%	44%
Highly effective					35%	34%
Don't know					0%	0%
Quality of governance compared with three years ago		**2,086**	**2,373**	**1,195**	**1,319**	**1,463**
Much worse	N/C	0%	0%	0%	1%	1%
Somewhat worse		11%	2%	2%	4%	2%
About the same		34%	13%	13%	13%	14%
Somewhat better		44%	33%	37%	36%	42%
Much better		8%	44%	43%	40%	40%
Don't know		9%	8%	4%	4%	2%
Hours per month on all NFP governance work	**1,110**	**1,108**	**1,201**	**632**	**642**	
None	0%	0%	0%	0%	0%	N/C
Less than 1 hr.	0%	0%	0%	0%	0%	
1 to 4 hrs. (up to half a day)	5%	2%	3%	4%	3%	
5 to 8 hrs. (1/2 to 1 day)	15%	9%	11%	8%	7%	
1 to 2 days (9 to 16hrs)	23%	23%	19%	18%	18%	
2 to 5 days (17 to 40 hrs.)	33%	33%	33%	31%	37%	
5 to 8 days (41 to 64hrs)	13%	16%	19%	19%	19%	
More than 8 days (64hrs+)	11%	17%	14%	20%	16%	
Hours per month on this NFP	**1,010**	**2,383**	**2,601**	**1,038**	**1,064**	**1,147**
None	0%	0%	1%	0%	0%	0%
Less than 1 hr.	0%	1%	0%	0%	0%	1%
1 to 4 hrs. (up to half a day)	8%	10%	9%	6%	7%	4%
5 to 8 hrs. (1/2 to 1 day)	24%	20%	20%	17%	17%	13%
1 to 2 days (9 to 16hrs)	27%	31%	28%	27%	28%	25%
2 to 5 days (17 to 40 hrs.)	28%	25%	26%	32%	30%	34%
5 to 8 days (41 to 64hrs)	8%	9%	9%	11%	11%	15%
More than 8 days (64hrs+)	5%	5%	7%	8%	7%	9%

	2013	2014	2015	2016	2017	2018
Payment of directors	**1,007**	**2,298**	**2,592**	**1,160**	**1,274**	**1,368**
Unpaid	55%	58%	59%	56%	54%	49%
Unpaid but expenses covered	20%	23%	22%	24%	26%	29%
Unpaid but provided with honorarium	5%	3%	4%	3%	3%	3%
Paid directors fees	19%	15%	13%	15%	16%	18%
Other	1%	1%	1%	2%	1%	1%
Merger activity	N/C	**1,958**	**2,259**	**1,139**	**1,272**	**1,361**
Discussed merger	N/C	32%	32%	35%	38%	36%
Currently undertaking a merger	N/C	N/C	7%	8%	7%	6%
Completed a merger in the last 12 months	N/C	N/C	7%	6%	6%	6%
Discussed winding-up	N/C	N/C	8%	7%	9%	7%
Likelihood to merge in the next two years	N/C	N/C	N/C	N/C	**479**	**486**
Less than 10%	N/C	N/C	N/C	N/C	22%	21%
10% to 25%	N/C	N/C	N/C	N/C	14%	20%
25% to less than 50%	N/C	N/C	N/C	N/C	13%	17%
About 50%	N/C	N/C	N/C	N/C	16%	17%
More than 50% to 75%	N/C	N/C	N/C	N/C	15%	9%
Between 75% and 90%	N/C	N/C	N/C	N/C	11%	6%
More than 90%	N/C	N/C	N/C	N/C	8%	8%
Don't know	N/C	N/C	N/C	N/C	1%	2%
Gender	**1,859**	**2,479**	**2,439**	**1,234**	**1,511**	**1,507**
Male	70%	63%	62%	61%	57%	59%
Female	30%	37%	38%	39%	42%	40%
Prefer not to answer	N/C	N/C	N/C	N/C	1%	1%
Age	**1,857**	**2,485**	**2,439**	**1,304**	**1,509**	**1,517**
18 to 29	0%	0%	1%	1%	1%	1%
30 to 39	5%	5%	4%	6%	4%	4%
40 to 49	23%	22%	19%	18%	20%	17%
50 - 59	41%	41%	40%	40%	38%	38%
60- 69	26%	27%	30%	29%	30%	33%
70+	5%	5%	6%	6%	7%	7%

	2013	2014	2015	2016	2017	2018
Years experience as non-executive director of NFPs	**1,829**	**2,483**	**2,392**	**1,259**	**1,459**	**1,502**
None	26%	9%	1%	6%	5%	7%
Less than 1 year	3%	3%	4%	4%	4%	4%
1 to 3 years	13%	16%	17%	14%	17%	15%
4 to 6 years	15%	18%	20%	17%	16%	17%
7 to 10 years	15%	19%	20%	18%	18%	21%
11 to 20 years	17%	21%	23%	24%	24%	23%
More than 20 years	10%	13%	15%	17%	16%	14%
Years experience as non-executive director of For-profits	**1,794**	**2,455**	**2,345**	**1,229**	**1,445**	**1,465**
None	38%	46%	44%	46%	49%	55%
Less than 1 year	3%	2%	2%	2%	2%	2%
1 to 3 years	10%	8%	10%	8%	9%	9%
4 to 6 years	11%	9%	9%	8%	8%	6%
7 to 10 years	11%	9%	9%	9%	8%	8%
11 to 20 years	15%	14%	13%	12%	11%	10%
More than 20 years	12%	12%	14%	15%	13%	9%
Location	**1,864**	**2,480**	**2,440**	**1,299**	**1,511**	**1,522**
New South Wales	27%	27%	28%	32%	33%	33%
Victoria	25%	29%	28%	23%	27%	24%
Queensland	16%	15%	15%	15%	13%	16%
Western Australia	13%	11%	12%	11%	10%	9%
South Australia	7%	8%	7%	7%	7%	8%
ACT	4%	3%	4%	6%	4%	4%
Tasmania	3%	4%	4%	3%	3%	3%
Northern Territory	1%	1%	1%	1%	2%	2%
Outside Australia	3%	1%	1%	0%	1%	1%

The research method

The 2018 Study consisted of:

- Four focus groups – two with directors from a range of NFP sectors and two with directors of organisations operating in aged care.
- An online survey of AICD members and non-members. The survey was designed by BaxterLawley and distributed by AICD to its members.

The survey sample

The total number of respondents was 2,022. Of these, 1,628 were eligible for the survey. 200 were people seeking directorships who were diverted to answer the director profile questions only and the remainder were directors of for-profits only.

As in previous years, the sample includes a significantly higher proportion of respondents who are directors of larger organisations and, therefore, reflects the views of these directors and not directors of the NFP sector more broadly. There is no data available on the distribution of NFP organisations by size, but data from the Australian Charities and Not-for-Profits Commission provides some comparison of our sample with the population of charities for comparison. Charities are a subset of NFP organisations.

Size categories

	Income last year	Our respondents	ACNC Charities data[2]
Very small	Less than $250,000	9%	74.8%
Small	$250,000 to $1m	11%	12.6%
Medium	$1m to $5m	25%	8.1%
Large	$5m to $20m	26%	3.2%
Very large	$20m+	28%	1.2%

2 Calculated from data provided by ACNC 2015 Annual Information Statement data.

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