Not-for-Profit Governance and Performance Study

Key findings from the 10th edition

CommonwealthBank

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About us

The Australian Institute of Company Directors (AICD) is committed to strengthening society through world-class governance. We aim to be the independent and trusted voice of governance, building the capability of a community of leaders for the benefit of society. Our membership of more than 44,000 includes directors and senior leaders from business, governance and the not-for-profit (NFP) sectors.

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JOIN OUR SOCIAL COMMUNITY

CommBank

For a stronger not-for-profit sector

Looking back over the past five years of CommBank's sponsorship of the AICD's *NFP Governance and Performance Study*, it has been interesting to watch the growing recognition of the need for strong governance skills for board members of NFP and community groups.

In CommBank's most recent 'Not-for-Profit Insights Report' we explored how the sector is adapting to change and preparing for the future. NFPs who were found to be 'innovation-active' were found to be maximizing their investment in their people and technology as an effective way to achieve greater impact as they deliver on their purpose and mission.

Seen through this lens, the need for investment in the ongoing training and development of board members becomes increasingly apparent. There is, however, a fine balancing act between the allocation of funds towards skills and knowledge building and what might be seen as 'diverting' finances away from an organisation's ultimate cause. And this is an area where NFPs can better leverage the partnerships they have with their own service providers.

As an example, here at CommBank our focus goes well beyond the provision of traditional financial products and services, to ensuring our clients are able to utilise our extensive resources, expertise and partnerships. This includes access to design thinking specialists and workshops to encourage the development of innovative and creative thinking, guides to support the work of NFP treasurers and board members, through to cyber-security training material to help organisations, their staff and volunteers stay safe online. These are just a few examples of how we share resources and knowhow, so it is worthwhile exploring what is available and what you have access to through your own service providers.

I hope you find this year's study a useful and practical tool in stimulating discussion amongst your board members and the senior leaders of your NFP.

Julienne Price
Head of Schools and Not-for-Profit Sector Banking
Commonwealth Bank of Australia

Not-for-profit governance in the spotlight

Welcome to the 10th edition of the *Not-for-Profit Governance and Performance Study.* AICD would like to thank all of those who have participated in this year's study, as well as the tens of thousands who have contributed to the study over the last 10 years.

When the study was launched back in 2010, it primarily focused on the contribution that directors made to the NFP community. Originally called the *Directors Social Impact Study*, the first edition noted that approximately 75 per cent of directors 'devoted' between one and 20 hours per month to their NFP organisations and about one third of respondents sat on multiple NFP boards. The current findings show that about half of directors are spending more than two days per month on a single NFP, with 21 per cent dedicating more than five days a month to a single NFP board.

In 2013 the study noted that there "was no evidence to support that NFP boards are less effective" than for-profit boards, debunking the prevailing myth that governance of NFP organisations was poor. These early studies also noted that the way that directors rated the governance of their own organisation was very positive. However, they viewed the governance of the sector as a whole less positively.

The study was renamed the *NFP Governance and Performance Study* in 2014, and findings showed that directors wanted better performance indicators to properly measure the purpose of their organisations. This theme has continued to build over subsequent editions.

In this year's report, in addition to the focus on time spent on board roles, we explore director remuneration, succession planning, the sports sector, the slowdown in mergers, and financial performance.

The AICD remains committed to the NFP sector and we are proud of the response we received to the second edition of the *NFP Governance Principles* released in early 2019. We are also delighted that we were again able to offer 140 scholarships to small NFPs to attend training programs this financial year.

Again, thank you to those who contributed to this year's study. I trust you will find the results informative.

Angus Armour FAICD
Chief Executive Officer & Manaing Director
Australian Institute of Company Directors

Quick Look

Introduction

The changing and challenging nature of NFP governance

The launch of the 10th edition of the AICD's *NFP Governance and Performance Study* is timely and provides valuable insights into how the sector is dealing with the challenges it is facing.

With governance and cultural issues now firmly in the public eye, there is a tremendous opportunity for governance leaders — including the AICD — to reflect on and strengthen the practice of governance in the sector.

'Setting the tone from the top' on culture is a continuing focus, but there are other important issues for all directors, including NFP directors, to consider. These include the implications of higher community expectations on directors and the financial challenges facing the sector.

"With governance and cultural issues now firmly in the public eye, there is a tremendous opportunity for governance leaders..."

"The role of boards and the expectations of directors across all sectors are under heightened scrutiny."

Executive Summary

NFP boards meeting governance challenges during a complex period of change

The 2019 *NFP Governance and Performance Study* has produced seven key findings:

1. NFP directors' time commitment – is it sustainable?

Directors are devoting extra time to each NFP board role — a consistent trend over the last five years of the study. As in other sectors, NFP board workloads are rising as regulatory and community expectations of boards increase and as governance becomes more complex.

2. Board composition and director recruitment are ongoing challenges

NFP boards continue to comprise mostly older directors, with 77 per cent over 50 and only five per cent under 40 years old, based on survey responses. Directors reported that some NFP boards have found it hard to recruit younger directors and that a lack of stakeholder representatives on their board remain an issue.

3. NFP director remuneration – where is it heading?

Directors report that there has been little change in the proportion of NFPs that pay board fees, despite rising workloads and risks. Some directors believe greater debate is needed on whether NFPs should pay board fees or increase current remuneration rates.

4. NFPs are effective, but remain financially challenged

NFP directors are optimistic on their organisation's future, but reported profitability, based on responses, is at a four-year low. This suggests there is a widening gap between directors' perceptions of their organisation's financial performance and its actual performance.

5. NFP mergers appear to be slowing – will this continue?

Fewer directors said their organisation is engaged in a merger with another NFP or is considering one. The push for NFPs to merge in order to create economies of scale may have peaked for now.

6. Board performance is rated highly, but directors see strategic planning and implementation as areas for improvement

Directors rate their board performance highly but see strategic planning and implementation as areas for improvement. Ensuring their organisation diversifies income sources and navigates a changing operating environment are short-term priorities. Longer term, the focus is on improving the board's oversight of strategy formulation and execution.

7. Challenges facing sporting organisations have evolved

Directors of sporting organisations face some unique challenges. Respondents from the sports sector listed growth in audiences and participation, infrastructure, and income uncertainty as major challenges. The governance of federated structures was also a common theme. Newer themes included the growth of online sports betting and the impact of social media.

"The responsibilities of NFP directors are increasing and we need more of their time, which may be beyond reasonable volunteer expectations."

NFP Governance and Performance Study 2019

KEY FINDING 1

Directors' time commitment

Key Finding 1

NFP directors' time commitment - is it sustainable?

Headline Results

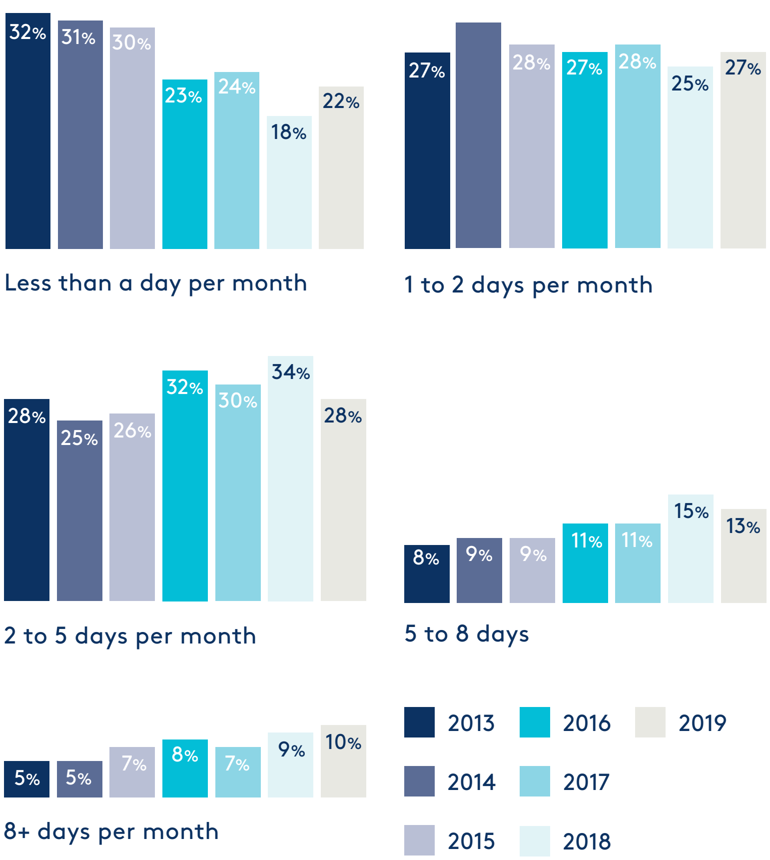
- Over 50 per cent of respondents are spending more than two days per month on a single NFP board role.
- The percentage of directors working five to eight days a month on a single NFP board role has risen to 13 per cent, up from eight per cent in 2013.
- The proportion of directors who spend more than eight days a month on a single NFP directorship has doubled to 10 per cent since 2013.

In line with the increasing regulatory and community expectations on boards, new risks emerging and governance generally becoming more complex, NFP directors are spending more time on their board roles.

Data on NFP board workloads can vary each year and should be considered over long periods.

On that basis, the study shows the proportion of directors who have spent more time on their NFP role over five years continues to edge higher.

Figure 1.1: Time spent working on a single NFP board



Factors contributing to greater NFP board workloads include:

- Rising governance expectations and complexities across sectors
- Community trust challenges for NFP organisations
- Ongoing changes in financial and auditing practices in the NFP sector
- Introduction of the *National Disability Insurance Scheme* (NDIS) and the subsequent rising demand for NFP services as more people sign up to the scheme
- Growing financial pressures in the NFP sector
- Changes in organisation complexity and regulation

As directors reported spending more time on their NFP role, they were also taking part in extra governance or sector-related training.

Results indicate:

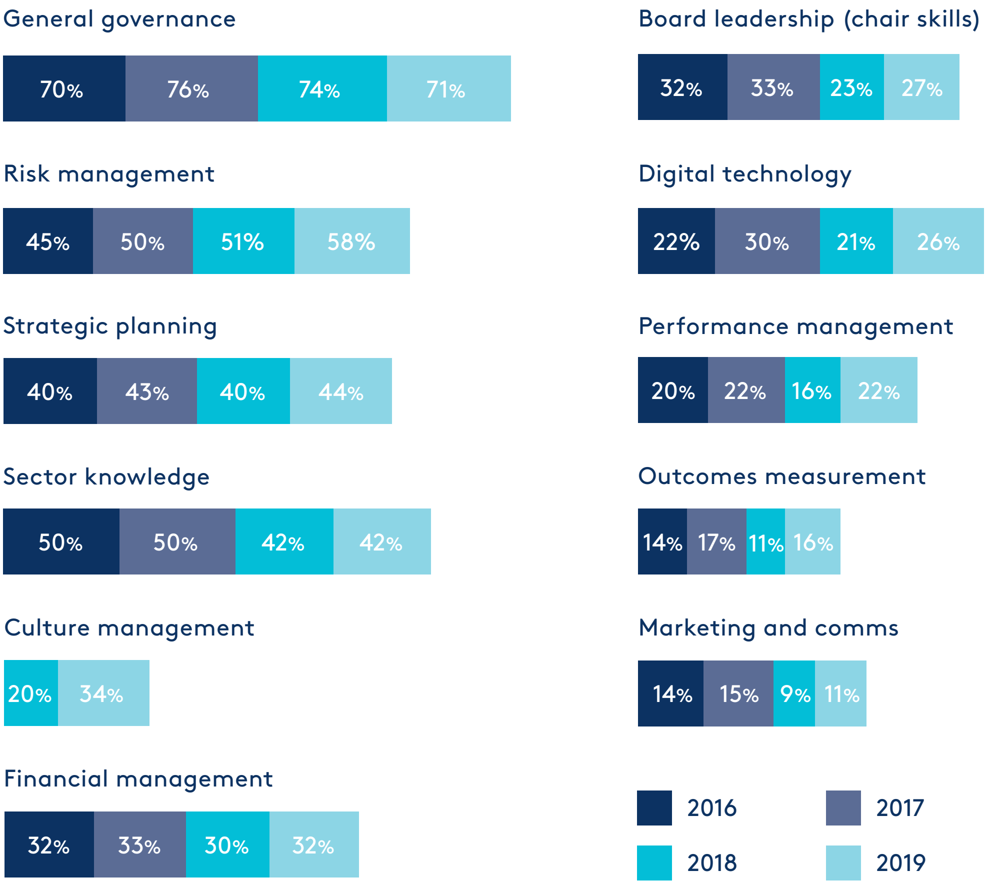
- Nine in 10 directors completed training related to their NFP role in the last year;
- A quarter of directors received between three to seven days of training in the past year; and
- 19 per cent undertook more than one week of training in FY19.

Figure 1.2: Amount of training undertaken in the last 12 months (n = 1,167)

This training is in response to the changing regulatory and community expectations of boards and includes:

- **General governance training** which continues to be the most popular form of NFP board education;
- **Risk management training**, with an increasing number of NFP directors having received this though their NFP; and
- **Culture management**, with 34 per cent of directors having received such training (up from 20 per cent one year earlier).

Figure 1.3: Training received



What directors said

On workloads:

"The responsibilities of NFP directors are increasing and we need more of their time, which may be beyond reasonable volunteer expectations. As the complexity of our NFP work increases, we have more risks and more complex business decisions. For example, investing in digital and clinical governance and compliance."

On training and professional development:

"... Director training and development is explicitly now covered by the organisation and very much encouraged. This was not so in the past."

"(Our NFP board will be stronger because of) continuous improvement, improved focus on board roles and AICD training for board members."

Talking points for boards

- How much time does each director, on average, spend on their role?
- How much time should each director spend on their role?
- Are rising workloads affecting our board's performance?
- Are rising workloads impacting our board's succession planning?
- Can we streamline some governance tasks or obtain extra support?
- Will higher workloads influence our board's composition?
- Will we need to make meeting schedules more flexible?
- Could we utilise technology better to reduce the workload of directors?
- Has our board undertaken appropriate training?

KEY FINDING 2

Board composition

“The board monitors its profile closely and has developed a strategy to ensure diversity of skills and culture.”

NFP Governance and Performance Study 2019

Key Finding 2

Board composition and director recruitment are ongoing challenges

Headline Results

- Female representation on NFP boards continues to grow. Forty per cent of survey respondents were female, up from 27 per cent in 2010.
- NFP boards will need to make a stronger effort to attract younger directors or risk being hit with the retirement of 'baby boomers.
- Cultural diversity also appears to be a challenge for the sector.

Australia's NFP sector continues to benefit from the skills, experience and networks of older directors who mostly serve on NFP boards on a volunteer basis.

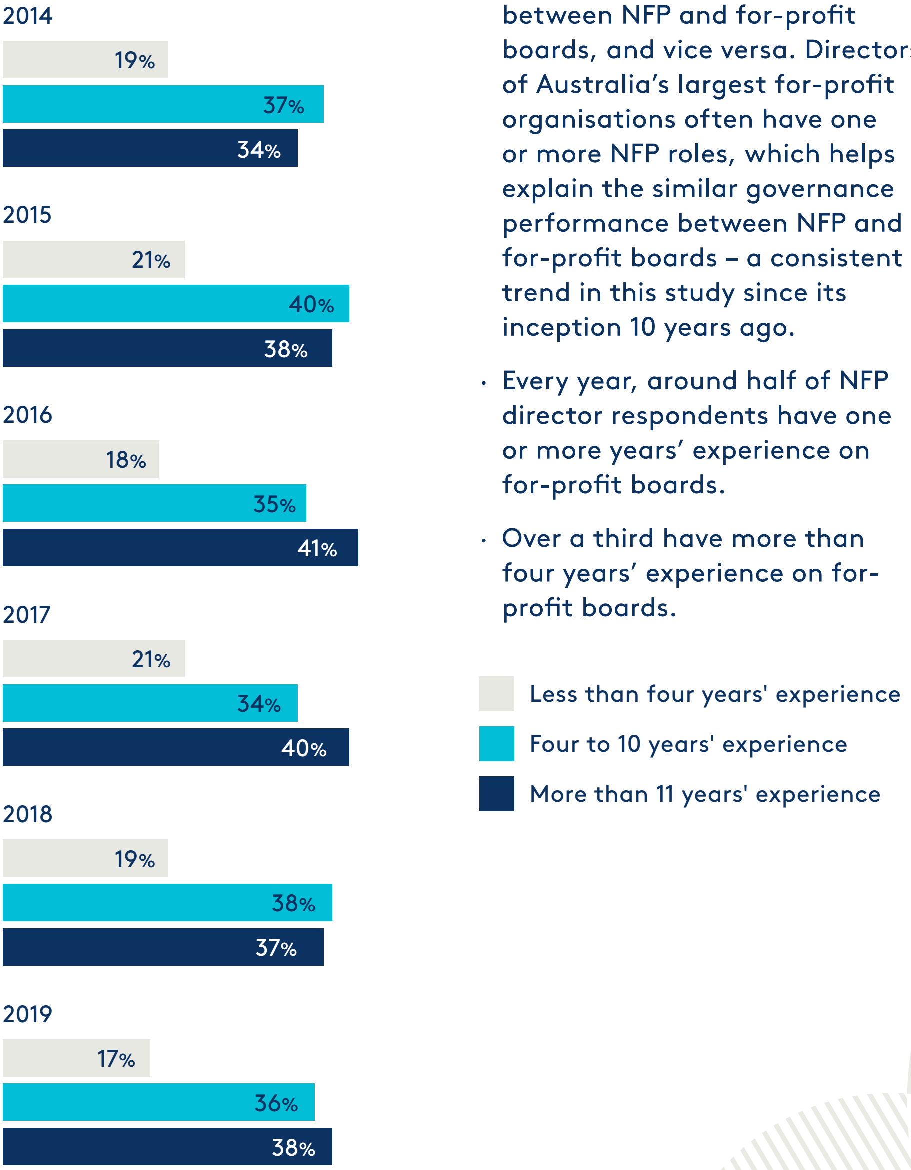
38% of directors have 11 or more years of non-executive experience in NFP governance

36% of directors have four to 10 years of experience in NFP governance

17% of directors are AICD Fellows[1]

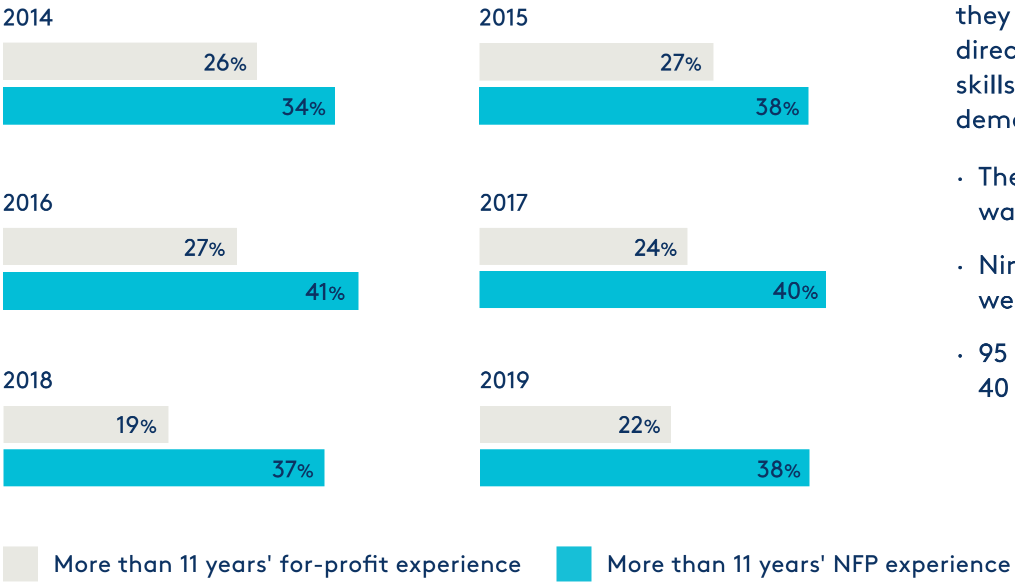
[1] AICD considers a Fellow to be an individual with considerable experience, seniority and good standing within Australia's director community, and who consistently demonstrates high integrity.

Figure 2.1: NFP director experience



- The NFP sector also benefits from a significant cross-over between NFP and for-profit boards, and vice versa. Directors of Australia's largest for-profit organisations often have one or more NFP roles, which helps explain the similar governance performance between NFP and for-profit boards – a consistent trend in this study since its inception 10 years ago.
- Every year, around half of NFP director respondents have one or more years' experience on for-profit boards.
- Over a third have more than four years' experience on for-profit boards.

Figure 2.2: Directors with more than 11 years' experience as a non-executive director of NFP and for-profit boards[2]



Like other sectors, NFP organisationss face significant board composition challenges as they strive to attract and retain directors with the right mix of skills and diversity. The results demonstrate that:

- The average age of respondents was 54 years;
- Nine per cent of respondents were 70 or older; and
- 95 per cent of respondents were 40 years or older.

NFP boards continue to rely heavily on older directors, some of whom are approaching retirement and may reduce or end NFP governance commitments in coming years.

NFP boards are struggling to attract younger directors. This has implications for NFP board renewal and composition as NFP organisations look to refresh their boards and introduce new skills as needed, partly through recruitment of younger directors.

Inadequate cultural diversity on NFP boards may hamper future governance performance. The NFP sector has a large number of multicultural organisations that serve multicultural communities, but board composition on some NFPs does not reflect this.

[2] Totals do not add to 100% as some respondents are Executive Directors only.

What directors said

On the importance of representing different stakeholders:

"I do not believe that reflecting stakeholders groups is a good way to structure a Board. Skills are more important."

"A board best serves its stakeholders if it is skills based and can govern with all key stakeholders in mind. Having "representatives" from each stakeholder group could make a board dysfunctional."

"We lack gender equality, cultural diversity and age diversity compared to our stakeholder groups."

"We provide services to people with disabilities and the highly vulnerable. It is hard to know how best to reflect this stakeholder group."

On age diversity:

"The board monitors its profile closely and has developed a skill, culture matrix to verify its diversity. (We) would ideally like one or two members under 40 to join in the next year or so."

"I don't believe candidates under 30 years would have the industry experience needed for effective board membership."

"The organisation exists to assist homeless young people under 25. The youngest Board member we have ever had was 30. Average age of board members would be 45."

Talking points for boards

- Is gender, age or cultural diversity an issue on our board?
- Do we have a strategy for director diversity?
- Is our board mostly comprised of older directors?
- Do we have a succession plan in place for board renewal as some older directors retire?
- Have we struggled to attract young directors?
- What could we do to appeal more to younger directors?
- Does our board's cultural diversity adequately reflect the diversity of stakeholders?

“The introduction of a moderate director remuneration scheme has resulted in major improvement in both the quality and commitment of appointed directors.”

NFP Governance and Performance Study 2019

KEY FINDING 3

NFP director remuneration

Key Finding 3

NFP director remuneration – where is it heading?

Headline Results

- There has been no significant change in the number of NFPs that pay directors, despite expectations that directors have greater skill sets and commit more time to their roles.
- Larger NFPs are much more likely to pay directors.
- Development & housing and aged care directors are more likely to be remunerated.

"Should NFPs pay directors?" remains a controversial governance question. Supporters say higher pay would compensate NFP directors for their time, improve governance quality and possibly attract younger directors to the NFP sector.

Opponents argue that most NFP directors serve on their board to give back to a cause or the community. Some are concerned that the payment of board fees would detract from their organisation's mission and values, or further pressure organisation resources.

This study has consistently found each year that NFP governance is at least as good as for-profit governance, despite an absence of, or lower, NFP director fees.

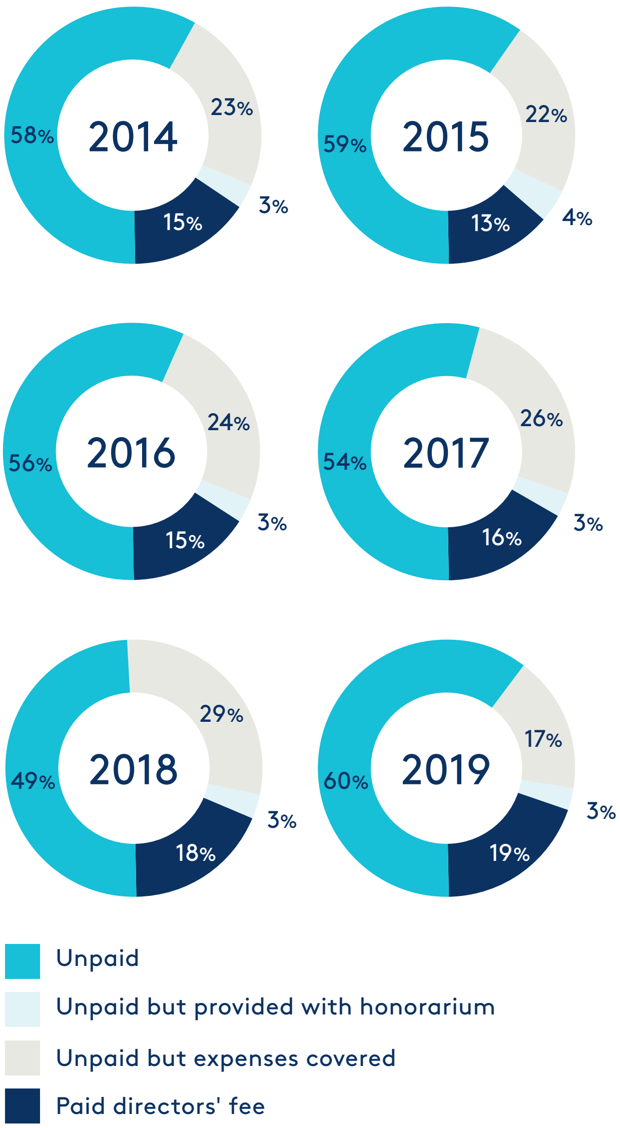
In many cases, NFP boards have directors who also serve on for-profit boards, meaning the same governance expertise is applied across sectors.

Moreover, payment of director fees is a moot point for many NFP boards. Either they simply cannot afford it, or governments, funders or their own constitution may not allow it.

Findings from this year's study reinforce the challenges of NFPs paying board fees.

- 19 per cent of directors in this survey say they receive remuneration. This is a small increase from the 15 per cent in 2014 but may reflect a higher proportion of respondents from larger NFPs (as seen in figure 3.1).
- 15 per cent of respondents said their board had discussed whether fees should be paid. This discussion was prompted due to a need for directors with greater skill sets, and the need to attract more experienced directors. NFP directors are also expected to take on increased workloads.
- 21 per cent of male NFP directors were paid compared to 17 per cent of females. This may be because a higher number of respondents from larger NFPs were male.

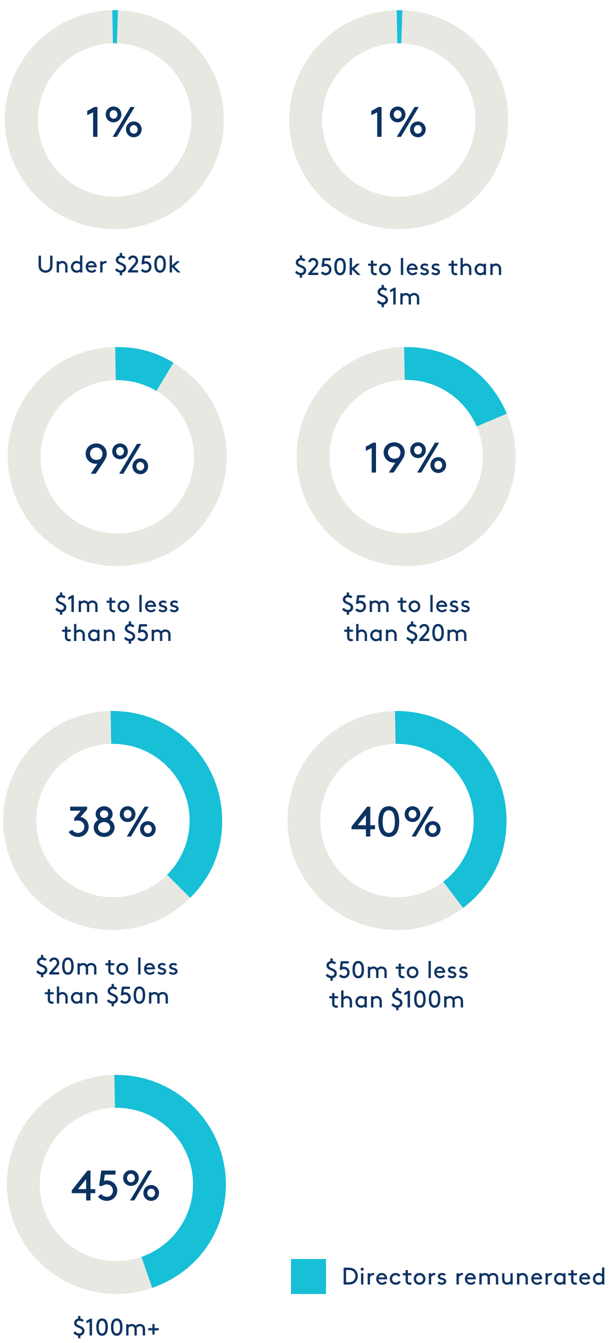
Figure 3.1: Payment of NFP director fees



NFP board fees vary in accordance with organisation size.

- 45 per cent of directors of NFPs with turnover of more than $100 million are paid.
- Nine per cent of directors of NFPs with turnover of $1-5 million are paid.
- 1 per cent of directors of NFPs with turnover of less than $1 million are paid.

Figure 3.2: Payment of directors by size of NFP (n = 1,007)



What directors said

"… Some (NFP board) payment would recognise and help compensate people for their time; payment might mean a broader cohort of people might be interested in being on the board."

"I am in two minds about payment of director fees – in some cases, this entices skilled and experienced professionals to join the board; however, the board composition should reflect its community and clientele. Additionally, in our case, the board needs to reflect the values of the organisation and missional values."

"The 35-year history of this organisation has had an earlier period of unpaid directorships but following a significant governance review conducted … nearly 20 years ago, the introduction of a moderate director remuneration scheme has attracted a major improvement in both the quality and commitment of appointed directors."

"I believe NFP directors should be financially compensated in a minimal way, to at least indicate they are valued."

"There are mixed views about payment with the strongest views for payment from the younger directors (under 40)."

"Paying directors and making room for experienced independent directors would greatly benefit our organisation, as well as others."

"I would like to be paid for my work on this board; (a) the organisation could afford to pay its Board; and (b) to attract board members in the future for the Aged Care sector payment will most likely be required."

"(The organisation) has inadequate margins to even consider paying directors."

"There are committed professional people on the board who recognise the mission of the organisation and its value and contribution to the community and who show no interest nor desire for remuneration."

Talking points for boards

- Would director remuneration improve commitment and performance of our board?
- Why do we think director remuneration would improve this?
- Would director remuneration assist in succession planning?
- Could the introduction of board fees be at odds with our organisation's values?
- What impact would the introduction of fees have on organisation resources?
- Would fees help compensate directors for extra time, skills or risk required?

KEY FINDING 4

Organisational performance

"We have a clear and realistic strategy for how we will achieve our mission and fund it."

NFP Governance and Performance Study 2019

Key Finding 4

Not-for-profits are effective, but remain financially challenged

Headline Results

- NFP directors surveyed overwhelmingly believe their organisation is effective.
- Most are optimistic about the future strength of their NFP.
- The financial sustainability of NFPs is not as strong as directors believe and may be weakening.

Directors have consistently said their NFP is "effective" or "very effective" since 2016. That view is based mostly on achievement of strategic goals, results from key performance indicators and, in some cases, industry-specific measures such as quality standards.

Directors have noted their organisation's greater commitment to improving performance measures over the past five years – a change that has been driven internally and in response to requests from funders, donors and members that seek greater transparency and accountability.

Figure 4.1: How effective is your organisation in achieving its mission or purpose?

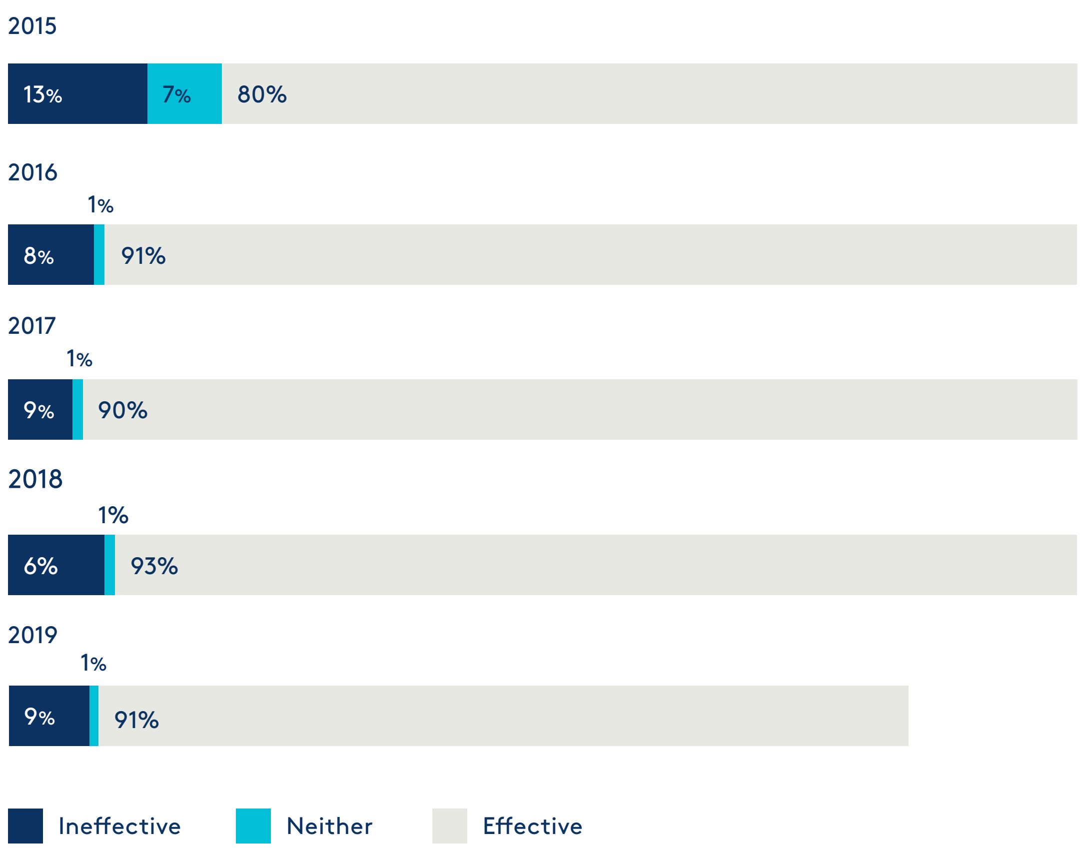


Figure 4.2: Will the organisation be weaker or stronger in three years?

Directors remain unwaveringly optimistic about their organisation:

- 62 per cent say their organisation will be "stronger" or "much stronger" in three years.
- A further 20 per cent believe the organisation will be a "little stronger".
- Only 9 per cent said their NFP will be weaker in three years.

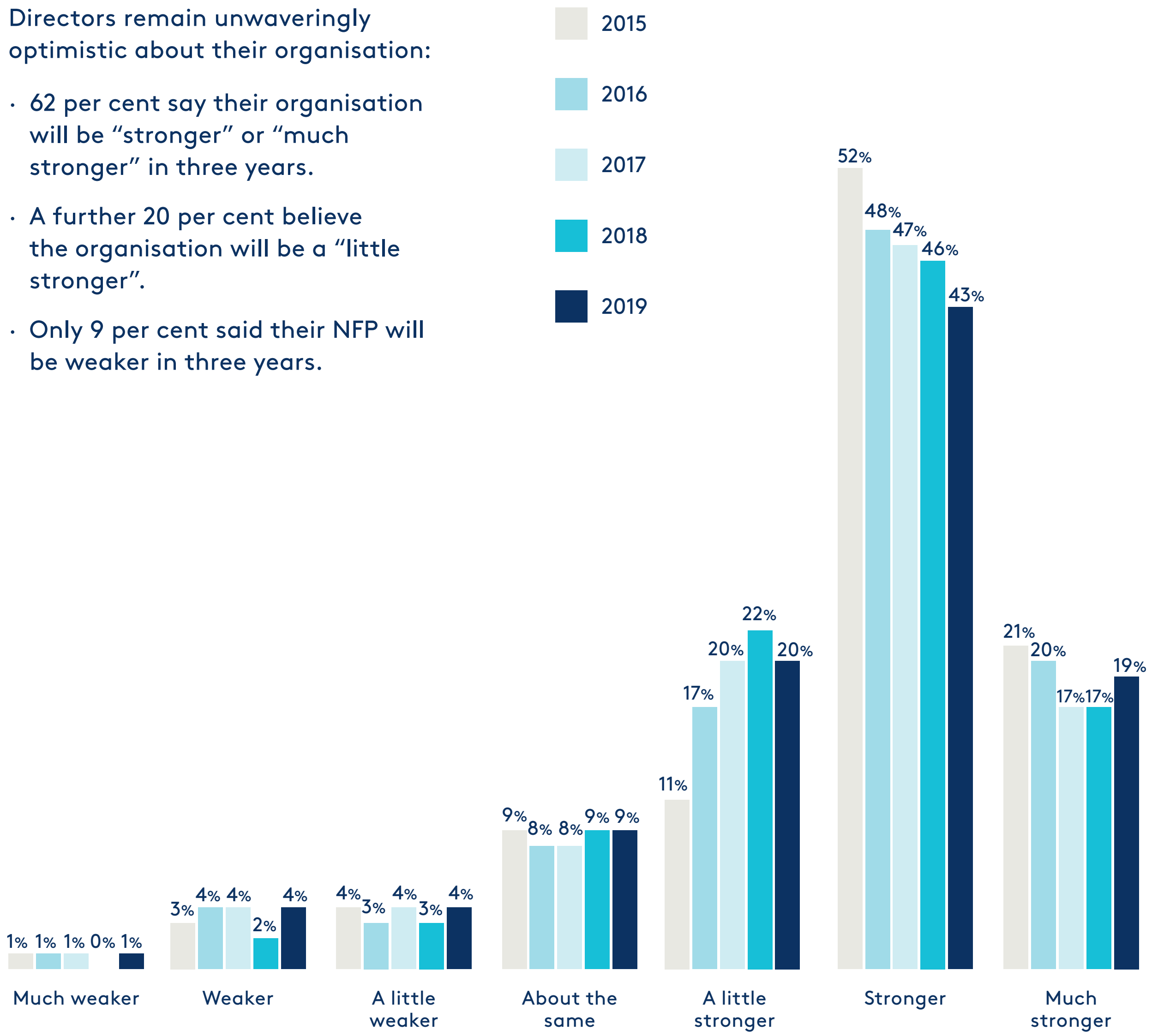
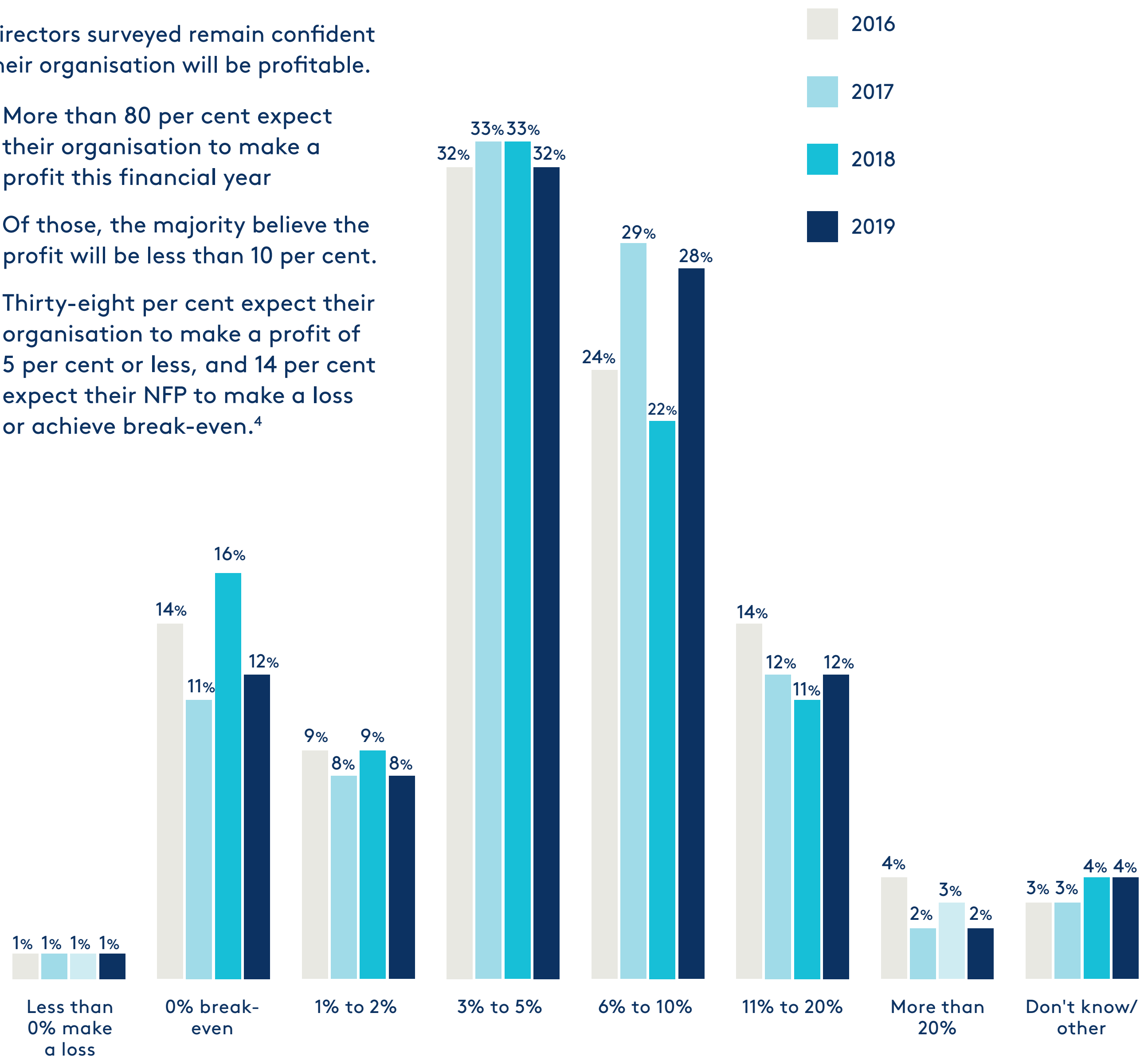


Figure 4.3: Profit target this financial year

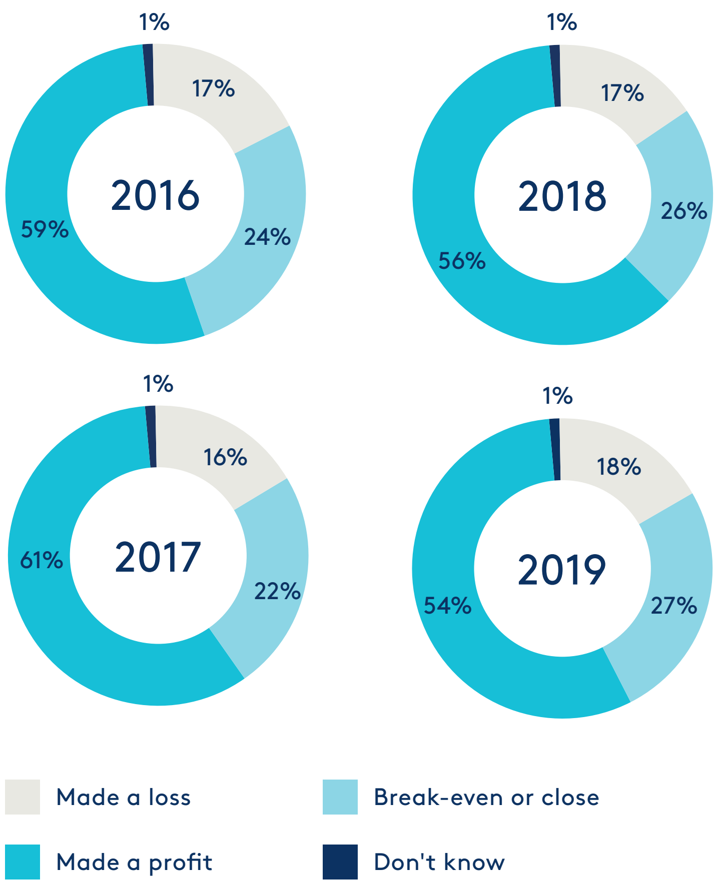
Directors surveyed remain confident their organisation will be profitable.

- More than 80 per cent expect their organisation to make a profit this financial year
- Of those, the majority believe the profit will be less than 10 per cent.
- Thirty-eight per cent expect their organisation to make a profit of 5 per cent or less, and 14 per cent expect their NFP to make a loss or achieve break-even.[4]



[4] The percentages do not add up to 100 because some directors surveyed did not know if their organisation would be profitable

Figure 4.4: Average financial performance over three years



But these performance expectations are at odds with reported NFP profit:

- While 80 per cent of directors, expect their organisation to be profitable, only 54 per cent reported to have actually made a profit.
- Actual profitability is at a four-year low, at 54 per cent, compared to 61 per cent in 2017.
- The number of directors reporting that their organisation achieved break-even (or close to that) has risen slightly to 27 per cent – a four-year high.

These findings suggest:

- NFP directors may need to reset their expectations about financial sustainability. Similarly, some NFP boards may need to contemplate the impact of their organisation's declining financial performance.
- Some NFP directors might not be sufficiently attuned to their organisation’s financial performance.

What directors said

Those who believe their organisation will be stronger say:

"We have a clear and realistic strategy for how we will achieve our mission and fund it."

"We have matured as an organisation in the past three years and are starting to operate more like a sustainable operation."

"We are building the organisation to make it sustainable for the long term. Long term, it will aim more for break-even but for now we are building for the future."

Those who believe their organisation will be weaker say:

"(Our organisation) needs to be much better at financial management."

"There is a lack of government support (for our organisation)."

"We rely on philanthropy to get to break-even and that is increasingly harder to do. Secondly, the National Disability Insurance Scheme and National Disability Insurance Agency are not properly funding disability services and if we don't change our business model and financial business model (do less and charge more), our position will substantially weaken."

"Government contracts are not keeping up with the Consumer Price Index."

Talking points for boards

- Do we have clear metrics to assess overall performance?
- Are we comfortable with these metrics?
- Do our directors fully understand the actual financial performance of the organisation and the main drivers of performance?
- Have we looked to model different scenarios of financial performance?
- Is there a gap between our expectations of financial performance over the next three years and current performance trends, and if so, why?
- Is there a risk that we are unrealistically optimistic about the organisation's future and underestimating its potential challenges?
- Do we have robust discussion around current and future financial performance?

“We operate in a crowded sector, so it makes sense to collaborate or merge to avoid duplication.”

NFP Governance and Performance Study 2019

KEY FINDING 5

Not-for-profit mergers

Key Finding 5

NFP mergers appear to be slowing - will this continue?

Headline Results

- Only five per cent of directors reported their NFP was undertaking a merger.
- Most directors assign a low probability to a merger of their NFP in the next two years.
- Organisation mission and service delivery remain key drivers of NFP mergers.

There has been much discussion this decade on the need for NFP mergers. Some commentary has suggested too many NFPs in Australia provide identical services and lack scale to be efficient. Also, commonwealth and state governments have sought to simplify services contracting and have encouraged some NFPs to collaborate or merge.

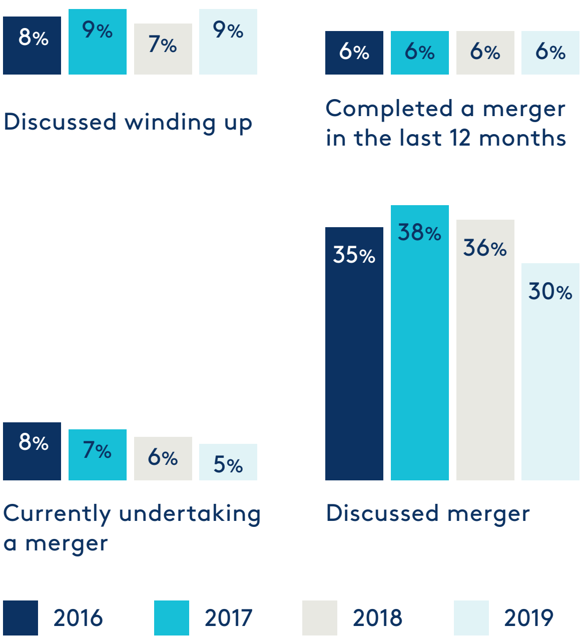
Further, there is a view that NFPs are less likely to merge than for-profit organisations[5]. Like mergers in other sectors, NFP mergers can be complex, costly and time consuming. Potential loss of NFP mission and values, and dilution of stakeholder goodwill, are other merger considerations.

NFP directors reported merger activity and intentions remained low.

- Six per cent of directors reported their NFP completed a merger in the past 12 months.
- 30 per cent reported their organisation had discussed a merger, compared to 38 per cent in 2017.
- Nine per cent of directors reported their NFP had discussed winding up.

[5] Productivity Commission 2010, Contribution of the Not-for-Profit Sector, Research Report, Canberra.

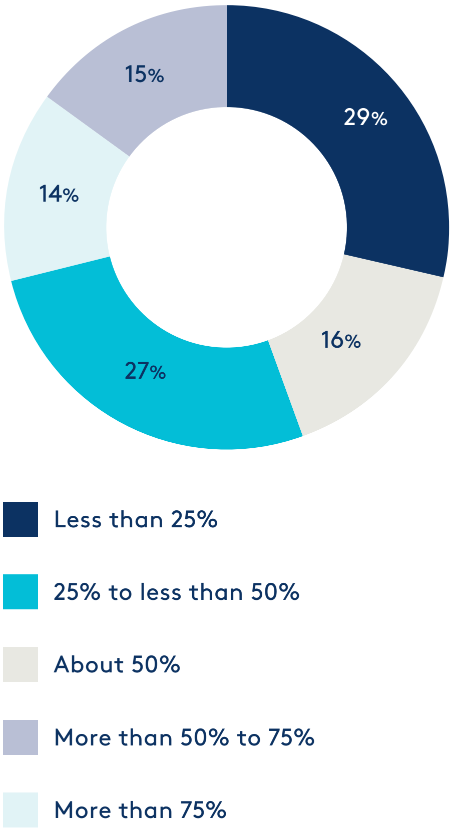
Figure 5.1: Rates of mergers and winding up[6]



Directors reported low probability of a substantial pick-up in NFP merger activity in the next two years. Of those discussing merger activity, only 29 per cent believed the likelihood of a merger was greater than 50 per cent.

[6] Due to multiple responses, totals do not add up to 100%.

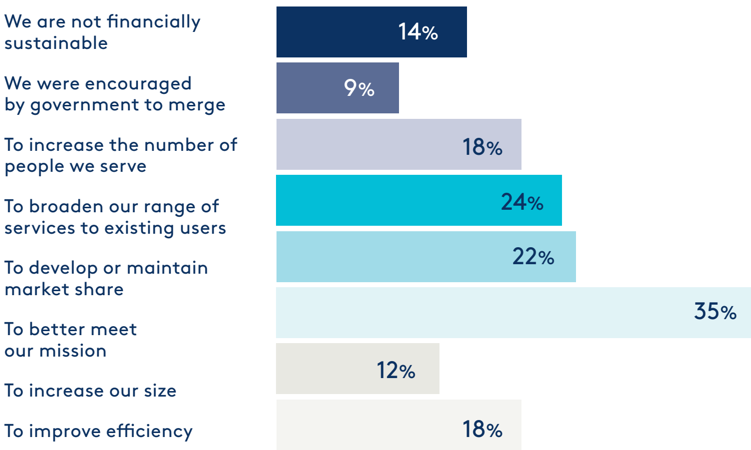
Figure 5.2: What is the probability of the organisation completing a merger with another NFP in the next two years?



Mission, market share and service delivery are the most important reasons for NFP mergers.

- 35 per cent of respondents identified "to better meet our mission" as the main reason for a merger involving their NFP.
- 24 per cent said "broadening our range of services to existing service users" was the main reason for a merger.
- Only 14 per cent said challenges around "financial sustainability" were the main reason for a merger.

Figure 5.3: Reasons for merging



What directors said

Those who believe their organisation will be stronger say:

"The organisation was a cultural fit with us and they chose ... to merge with us."

"To be able to operate in the NDIS environment."

"Upcoming loss of funding may mean we become financially unsustainable in the near future (three years)."

"Governance burden."

"We were asked by the NFP we merged with to merge with them because they were in financial difficulty."

"Pressure to merge nationally."

"Other smaller NFPs are coming forward to discuss (merger) options as there are benefits from economies of scale. Smaller organisations are struggling due to the changing environment. "

"A competitor organisation (which was a break-away from many years ago) became inviable and sought to re-integrate."

"(The) merger was driven by the needs of the other merging organisation and the strategic fit with our organisation. It came to us and it fitted."

"(We operate) in a crowded sector, so it makes sense to collaborate or merge to avoid duplication."

Talking points for boards

- Would a merger allow us to fulfil our mission more effectively?
- What would be the key risks of any sudden merger?
- How would the NFP's various stakeholders view a merger?
- Do we have the appropriate skills and experience for mergers?
- What would be the implications for our board of a merger?
- Do we expect pressure from government or funders to merge in the coming years?

[7] Merger comments taken from survey questionnaires. Mergers were not discussed in Focus Groups.

KEY FINDING 6

Strategic planning a priority for improvement

"We are working on a new corporate plan and major restructure. The results will show in 3 years if we stick to the strategy."

NFP Governance and Performance Study 2019

Key Finding 6

Board performance is rated highly, but directors see strategic planning and implementation as areas for improvement

Headline Results

- Directors are generally satisfied with the performance of their NFP board.
- A focus on strategic planning and implementation are areas for improvement.
- Strategic issues also rated highly as priorities for the next 12 months.

In the past two years, we have asked directors how they rate the current performance of their board, considering their organisation's size, complexity and industry:

- The majority believe their board's performance is about right or better than needed.
- A quarter believe board performance needs to improve.
- There has been a slight increase in directors who rate board performance poorer than it should be.

Figure 6.1: How directors rate their board's performance

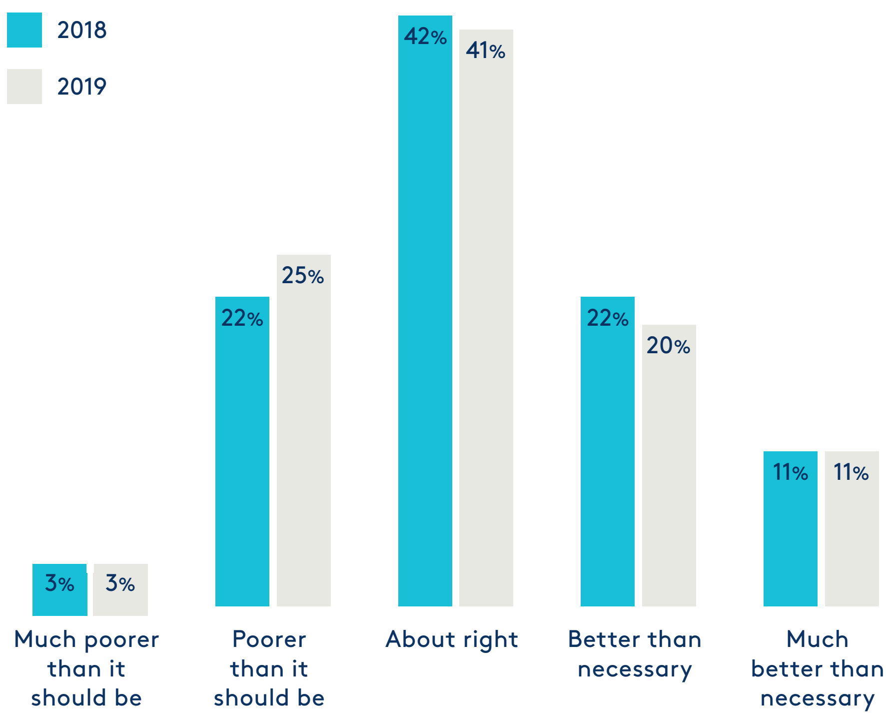
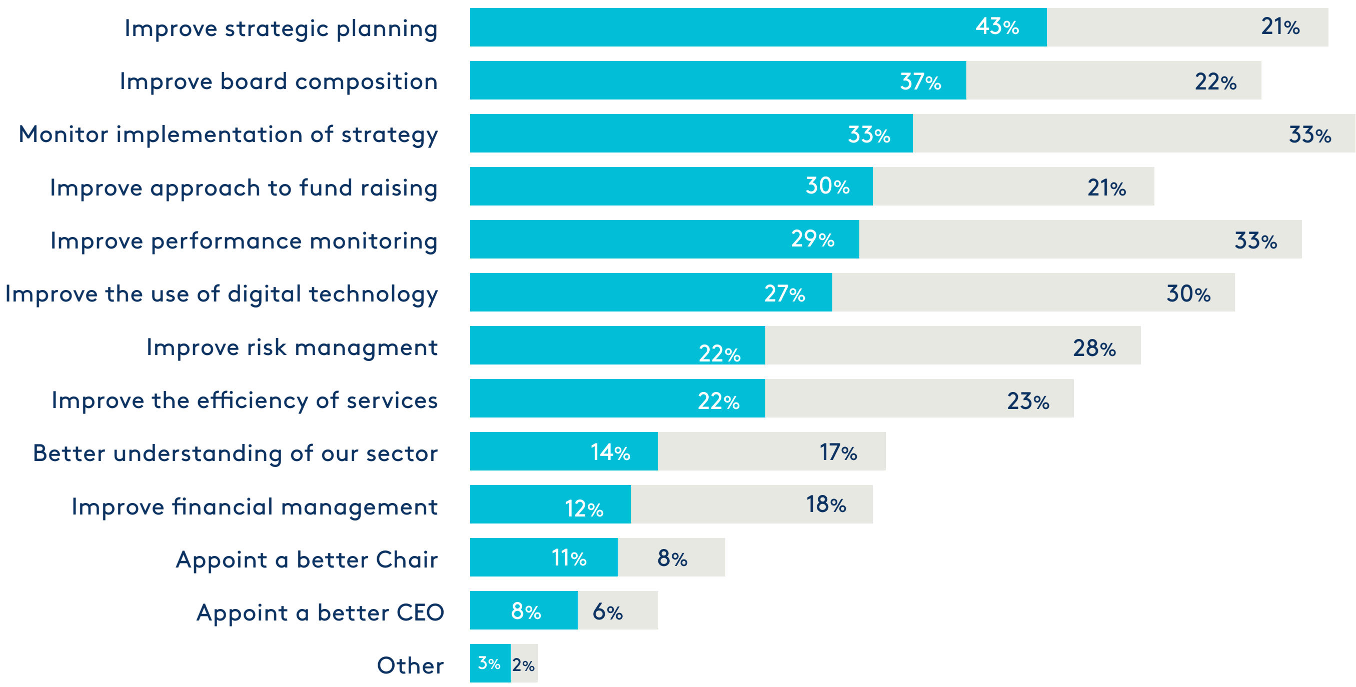


Figure 6.2: What actions can this board take to improve organisational performance?



Among those who believe board performance is poorer than necessary, directors are eager for further improvements. Key actions that would improve board performance include:

- Oversight of strategy implementation, strategic planning and performance monitoring were the top three things NFP boards could do better.
- Better understanding of digital technology and stronger oversight of cybersecurity initiatives were nominated as areas for improvement.
- Appointing better directors and a better CEO were considered low potential methods for improving board performance, as was financial management.

Figure 6.3: What are the 3 key priorities for my organisation

Organisational priorities for the next 12 months include income diversifying services, clarifying strategy and forming strategic partnerships.

- 37 per cent said diversifying income sources was the top priority.
- 33 per cent said clarifying strategic direction was a top-three priority.
- Managing organisation culture was a mid-ranking priority, despite boards across sectors generally focusing more on culture governance.

Talking points for boards

- Are we satisfied with our performance as a board?
- Do we conduct a regular review of our performance?
- Are we comfortable with our review process?
- Is our board focusing on the important issues?
- Do we have the appropriate involvement in strategy formulation and implementation?
- Are we focused on the key priorities for the next twelve months?
- Do we have alignment between the board and key stakeholders on strategy and priorities?

“Spectator behaviour is much better because of what social media can do. But social media is creating huge risks for us.”

NFP Governance and Performance Study 2019

KEY FINDING 7

Challenges facing sporting organisations

Key Finding 7

Challenges facing sporting organisations have evolved

Headline Results

- Growth in memberships, audiences and improved facilities are key priorities for NFP sporting organisations.
- An increase in sports betting has unearthed new considerations for boards.
- The implications of digital technology and social media are playing on directors' minds.

Sporting clubs and organisations have always played a vital role in Australia. They range from professional clubs in AFL, rugby league, union, cricket, soccer, netball and other sports, to amateur sports and community clubs. They are often the backbone of rural and regional Australia.

Most sporting organisations in Australia operate on an NFP basis. Many have directors who volunteer their time to serve on the board, which could range from a local football club to a national sporting body.

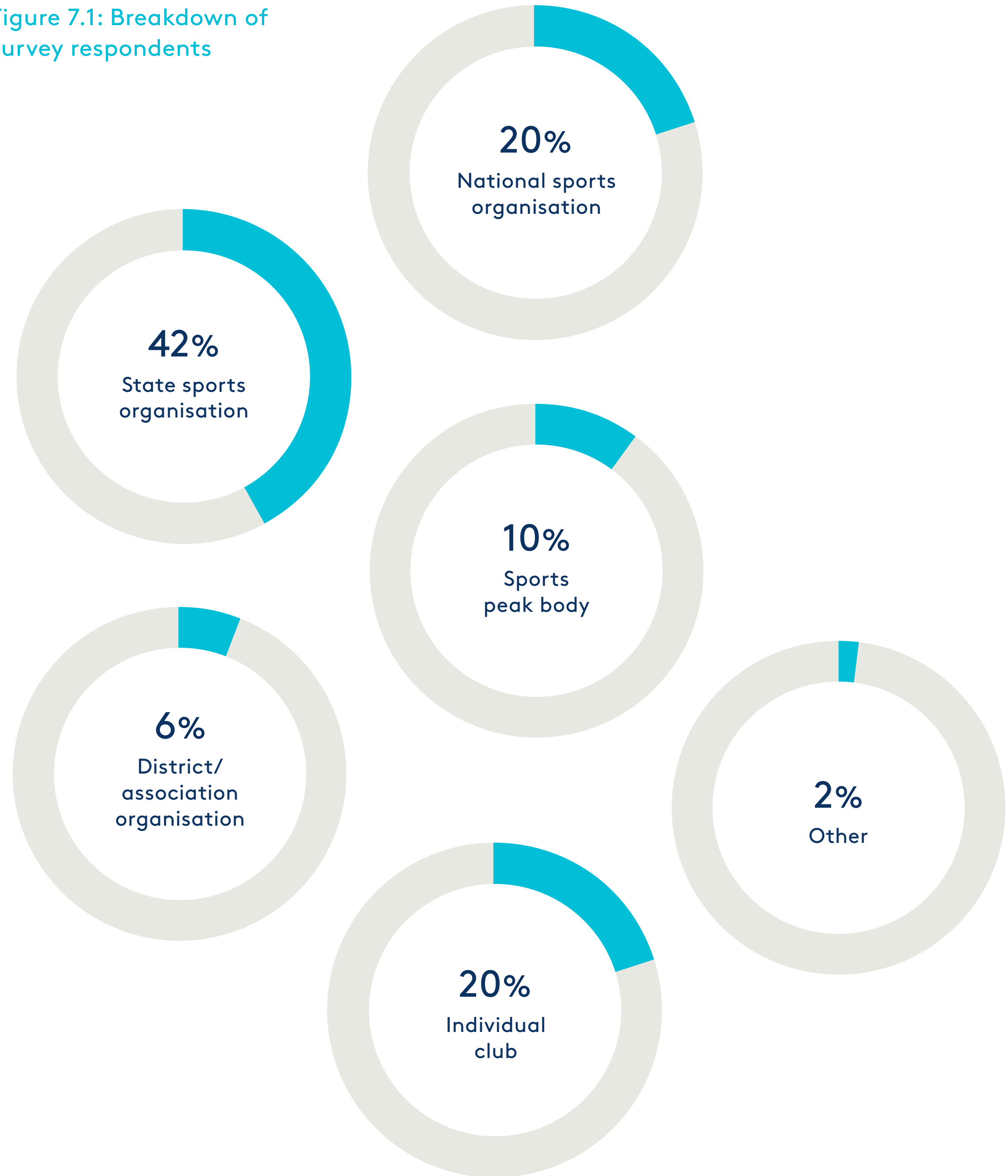
National sporting bodies have promoted the link between sports governance, business capability and the achievement of high-performance success.[8]

The AICD's *NFP Governance and Performance Study* previously examined sports governance in 2013. This year's survey includes responses from 86 directors of sporting organisations. Sports directors also provided comments through focus groups for this study.

Just over 60 per cent of respondents were from national and state sporting bodies.

[8] Australian Institute of Sport, Australia's Wining Edge 2012–2022, <www.ausport.gov.au>.

Figure 7.1: Breakdown of survey respondents



Common challenges from the 2013 study still remain. Examples include governing a federated sporting organisation where the national board includes representatives from state boards, or transitioning from this representative structure to a single, national sporting organisation.

Other ongoing challenges for sports governance in Australia include encouraging higher rates of gender diversity on sporting boards, lifting membership or participation rates in the sport and implementing modern governance practices.

However, much has changed since the 2013 study. Sports gambling, principally through the uptake of online betting technologies, has grown rapidly, creating ethical considerations for some sporting organisations that rely on gambling income (e.g. poker machines) or marketing dollars (e.g. sponsoring of a sporting club by an online betting provider).

Rapidly evolving digital technologies, including social media, have created other challenges for sporting bodies. Increased use of social media by players and spectators has implications for leaders of sporting organisations.

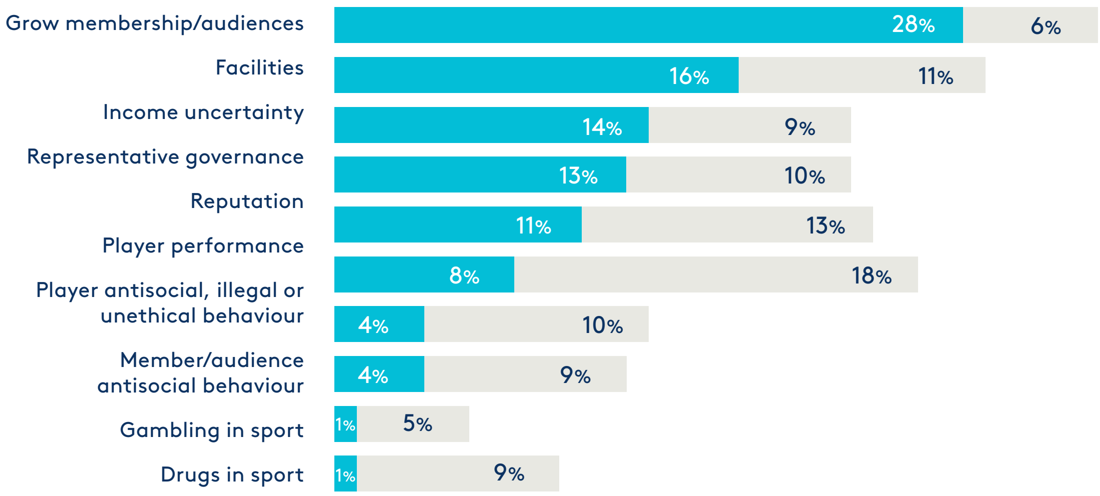
1. Key issues for directors include growth, facilities and income uncertainty.

Directors were asked to nominate priority issues for their sporting organisations. Growth in membership/audiences and improved facilities were the top two issues. Intense debate this year over the redevelopment of New South Wales sporting stadiums highlights the complexities involved as boards grapple with the governance of major projects to improve sporting facilities.

Not surprisingly, income uncertainty also rated as an extremely high concern for directors of sporting organisations. As in the 2013 study, the representative governance model of many sporting organisations rated as a key concern.

Gambling, drugs in sports, and player and audience behaviour — issues that have been prevalent in sporting media in recent years — had a low ranking among directors in the survey. However, directors gave these issues higher priority in focus-group discussions.

Figure 7.2: Key priorities for directors of sporting organisations



2. The increase in sports betting is having major implications for boards of sporting organisations.

Some sporting organisations support sports betting and cross-promote it. They receive income from advertising during matches, from advertising on uniforms (including those used by children) and on-field advertising of sports betting services.

Growth in sports betting has created ethical dilemmas and potential conflicts of interest, report directors. In this study, directors outlined concerns about the social impact of rapid growth in betting, while acknowledging that not engaging with betting companies would significantly reduce their organisation's income, in turn affecting performance.

Some directors believed it was better to engage with betting companies as it gave their organisation better control. Others felt that betting companies were already in the driving seat.

It was suggested that the controls implemented by governments in the 1990s to ban advertising of tobacco at sports events would need to be repeated for sports betting, particularly in regard to children.

Such bans will need to apply to social media and online streaming — a complex task. The internet has made controlling content produced by offshore betting companies difficult, if not impossible.

3. Digital technologies.

The rise of social media this decade is affecting all organisations and directors of sporting organisations face particular challenges from it.

Directors commented that while the behaviour of club members, players and audiences has deteriorated over recent decades, social media has exposed the best and worst of this behaviour to a larger audience, often in real time.

Social media has good and bad implications for sporting organisations. Some sports members or participants use social media to harm others, resulting in mental health consequences for the targets of the abuse — an acute issue for directors of sporting organisations that provide services to children and their families.

Players who break the law, sports regulations or social expectations on or off the field are far more likely to be exposed to public scrutiny and censure. This is a difficult issue for boards to grapple with, as high-profile incidents potentially tarnish the sporting organisation's reputation, threaten sponsorships and reduce player, member and spectator participation.

On a positive note, directors also highlighted the benefits digital communications had brought to audience and player behaviour in sport.

What directors said

When asked about their key challenges:

"Changing structure from a federated model to single, national sporting organisation."

"National body push to consolidate back-office activities conducted by state-based organisations will negatively impact participation of local volunteers as there will be no-one local to motivate and manage them."

"Creating a unitary model."

"Our biggest challenge at present is like many: space and the restriction of services due to lack of space. We need to manage cultural change of coaches and clubs, as well as ensuring we provide a safe place for learning and practising our sport."

Comments from focus groups:

"In ten years, we will see much more for-profit and lots more foreign ownership of sports clubs."

"We can't say no to the gambling organisations. We can't afford to go without the money."

"No club can afford to take a stand. We will have to be regulated by government."

"Spectator behaviour is much better because of what social media can do. But social media is creating huge risks for us. We have to protect vulnerable young people from the harm it's causing."

Talking points for boards

- Do we have a clear strategy to grow our organisation and our sport?
- Do we have the appropriate infrastructure to support this growth?
- Do we have the appropriate skills to align with our strategy?
- Has the board considered challenges in future income?
- Do we have the appropriate governance structure for our future growth?
- Do we understand our key risks?
- Is betting on our sport a risk for our organisation?
- Have we considered the implications of social media and other digital technologies on our organisation?

Breakdown of sample set

	2013	2014	2015	2016	2017	2018	2019
Total sample	**2,190**	**3,210**	**2,976**	**1,822**	**1,928**	**2,022**	**1,439**
NFP Income	**1,198**	**2,265**	**2,471**	**1,478**	**1,491**	**1,627**	
Less than $250k	14%	14%	13%	9%	9%	9%	10%
$250k to $1m	13%	15%	16%	14%	13%	11%	11%
$1m to $5m	23%	26%	26%	28%	28%	25%	23%
$5m to $20m	23%	22%	23%	23%	25%	26%	24%
$20m+	27%	23%	21%	26%	24%	28%	32%
Don't know	0%	1%	0%	1%	1%	1%	1%
Main Sector of Operations	**1,199**	**2,240**	**2,475**	**1,500**	**1,504**	**1,611**	**N/C**
Culture and recreation. Includes arts and sport	10%	11%	15%	9%	10%	10%	5%
Education and research. Includes primary, secondary, higher and vocational education	19%	17%	14%	14%	14%	14%	9%
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	14%	15%	21%	18%	18%	17%	21%
Social services. Includes child and youth welfare, disability services, emergency and relief, homelessness and income support	N/C	N/C	N/C	N/C	N/C	20%	19%

	2013	2014	2015	2016	2017	2018	2019
Aged care. Includes residential and non-residential aged care						8%	
Environment. Includes animal protection	3%	3%	2%	4%	3%	3%	3%
Development and housing. Includes economic and social and community development in communities, housing assistance, employment and training	3%	3%	5%	4%	4%	3%	2%
Law, advocacy and politics.	1%	2%	2%	2%	2%	2%	2%
Philanthropic intermediaries and voluntarism promotion. Includes fund raising, grant making foundations and supporting volunteering	3%	2%	2%	3%	2%	3%	3%
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%	3%
Religion. Includes congregations and associations of congregations	2%	2%	2%	2%	2%	3%	2%
Business and professional associations. Includes labour unions	8%	8%	7%	6%	6%	8%	6%
Not elsewhere classified	15%	16%	10%	8%	9%	7%	9%

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

Overall rating of organisation effectiveness	N/C*	N/C*	N/C*	N/C*	1,419	1,577	1,124
Highly ineffective					4%	2%	3%
Mostly ineffective					3%	2%	3%
Somewhat ineffective					2%	2%	3%
Neither ineffective nor effective					1%	1%	1%
Somewhat effective					13%	15%	15%
Mostly effective					42%	44%	42%
Highly effective					35%	34%	34%
Don't know					0%	0%	0%

	2013	2014	2015	2016	2017	2018	2019
Quality of governance compared with three years ago	**N/C**	**2,369**	**2,373**	**1,195**	**1,319**	**1,463**	**1,115**
Much worse		0%	0%	0%	1%	1%	1%
Somewhat worse		2%	2%	2%	4%	2%	3%
About the same		12%	13%	13%	13%	14%	14%
Somewhat better		34%	33%	37%	36%	42%	32%
Much better		43%	44%	43%	40%	40%	46%
Don't know		8%	8%	4%	4%	2%	4%

	2013	2014	2015	2016	2017	2018	2019
Hours per month on all NFP governance work	**1,110**	**1,108**	**1,201**	**632**	**642**	**N/C**	**N/C**
None	0%	0%	0%	0%	0%		
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%		

	2013	2014	2015	2016	2017	2018	2019
Hours per month on this NFP	**1,010**	**2,383**	**2,601**	**1,038**	**1,064**	**1,147**	**829**
None	0%	0%	1%	0%	0%	0%	0%
Less than 1 hr.	0%	1%	0%	0%	0%	1%	0%
1 to 4 hrs. (up to half a day)	8%	10%	9%	6%	7%	4%	7%
5 to 8 hrs. (1/2 to 1 day)	24%	20%	20%	17%	17%	13%	15%
1 to 2 days (9 to 16hrs)	27%	31%	28%	27%	28%	25%	27%
2 to 5 days (17 to 40 hrs.)	28%	25%	26%	32%	30%	34%	28%
5 to 8 days (41 to 64hrs)	8%	9%	9%	11%	11%	15%	13%
More than 8 days (64hrs+)	5%	5%	7%	8%	7%	9%	10%

	2013	2014	2015	2016	2017	2018	2019
Payment of directors	**1,007**	**2,298**	**2,592**	**1,160**	**1,274**	**1,368**	**1,007**
Unpaid	55%	58%	59%	56%	54%	49%	60%
Unpaid but expenses covered	20%	23%	22%	24%	26%	29%	17%
Unpaid but provided with honorarium	5%	3%	4%	3%	3%	3%	3%
Paid directors' fees	19%	15%	13%	15%	16%	18%	19%
Other	1%	1%	1%	2%	1%	1%	1%

	2013	2014	2015	2016	2017	2018	2019
Merger activity	N/C	1,958	2,259	1,139	1,272	1,361	
Discussed merger		32%	32%	35%	38%	36%	30%
Currently undertaking a merger		N/C	7%	8%	7%	6%	5%
Completed a merger in the last 12 months			7%	6%	6%	6%	6%
Discussed winding-up			8%	7%	9%	7%	9%
Likelihood to merge in the next two years	N/C	N/C	N/C	N/C	479	486	294
Less than 25%					14%	20%	29%
25% to less than 50%					13%	17%	16%
About 50%					16%	17%	27%
More than 50% to 75%					15%	9%	14%
More than 75%					8%	8%	
Don't know					1%	2%	1%
Gender	1,859	2,479	2,439	1,234	1,511	1,507	1,145
Male	70%	63%	62%	61%	57%	59%	59%
Female	30%	37%	38%	39%	42%	40%	40%
Prefer not to answer	N/C	N/C	N/C	N/C	1%	1%	1%
Years experience as non-executive director of NFPs	1,829	2,483	2,392	1,259	1,459	1,502	1,146
None	26%	9%	1%	6%	5%	7%	10%
Less than 1 year	3%	3%	4%	4%	4%	4%	4%
1 to 3 years	13%	16%	17%	14%	17%	15%	13%
4 to 6 years	15%	18%	20%	17%	16%	17%	18%
7 to 10 years	15%	19%	20%	18%	18%	21%	18%
11 to 20 years	17%	21%	23%	24%	24%	23%	21%
More than 20 years	10%	13%	15%	17%	16%	14%	17%
Years experience non-executive director of For-profilts	1,794	2,455	2,345	1,229	1,445	1,465	1,133
None	38%	46%	44%	46%	49%	55%	52%
Less than 1 year	3%	2%	2%	2%	2%	2%	3%
1 to 3 years	10%	8%	10%	8%	9%	9%	9%
4 to 6 years	11%	9%	9%	8%	8%	6%	7%
7 to 10 years	11%	9%	9%	9%	8%	8%	7%
11 to 20 years	15%	14%	13%	12%	11%	10%	11%
More than 20 years	12%	12%	14%	15%	13%	9%	11%

	2013	2014	2015	2016	2017	2018	2019
Location	**1,864**	**2,480**	**2,440**	**1,299**	**1,511**	**1,522**	**1,152**
New South Wales	27%	27%	28%	32%	33%	33%	30%
Victoria	25%	29%	28%	23%	27%	24%	28%
Queensland	16%	15%	15%	15%	13%	16%	15%
Western Australia	13%	11%	12%	11%	10%	9%	10%
South Australia	7%	8%	7%	7%	7%	8%	6%
ACT	4%	3%	4%	6%	4%	4%	5%
Tasmania	3%	4%	4%	3%	3%	3%	3%
Northern Territory	1%	1%	1%	1%	2%	2%	1%
Outside Australia	3%	1%	1%	0%	1%	1%	1%

Results

The research method

The 2019 Study consisted of:

- Six focus groups of which two were focused on directors of sporting organisations and four were focused on directors from across a range of NFP organisations.
- An online survey of AICD members and non-members. The survey was designed by BaxterLawley and distributed by AICD to its members.

Size categories			
	Income last year	Our respondents	ACNC Charities data
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%

The survey sample

The total number of respondents was 1,439. Of these, 1,206 were eligible for the survey. 147 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.

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