Not-for-Profit Governance & Performance Study 2024-25

A JOINT PUBLICATION BY

Australian Institute of Company Directors

Commonwealth Bank

Contents

Introduction from AICD

In recent years, the not-for-profit (NFP) sector has faced considerable challenges. Against this backdrop, I am pleased to see encouraging signs of stability reflected in the findings of this year's NFP Governance and Performance Study.

Over the sixteen years of this report, the directors and executives who lead this critically important sector have reflected on the evolving governance landscape, shedding light on its impact on their organisations. While many difficulties lie ahead, it is reassuring to see some bounce back in profitability for many and a mature approach to critical issues such as cyber security, artificial intelligence and climate change.

The AICD remains committed to assisting NFP leaders as they navigate these complexities. We continue to develop highly valued resources, including the launch of the revised NFP Governance Principles, to ensure directors can be ahead of the curve on developing issues.

In addition, our scholarship program has increased, with over 330 scholarships awarded in the 2024/25 financial year to courses including the Governance for Foundations for NFP Directors and the Care Governance programs for smaller NFPs. The demand for these scholarships was overwhelming with almost 1,500 applications submitted which demonstrates the strong interest from the sector in improving their governance knowledge. We will continue to increase the scholarship portfolio funded by the AICD as well as collaborate with partners to extend access to these opportunities.

I trust you find the study of interest and thank everyone for their time in responding to the survey.

Mark Rigotti MAICD
CEO and Managing Director
Australian Institute of Company Directors

A message from CBA

The Commonwealth Bank of Australia (CBA) is proud to support the Australian Institute of Company Directors (AICD) in presenting the Not-for-Profit Governance & Performance Study 2024-25. CBA is proud to partner with the AICD on the release of this report which provides valuable insights into this critical sector.

Over the past year, the NFP sector has demonstrated remarkable resilience and adaptability in the face of ongoing challenges. From navigating the complexities of cyber security and artificial intelligence to addressing environmental, social and governance (ESG) issues, NFP organisations have shown a steadfast commitment to their missions and the communities that they serve.

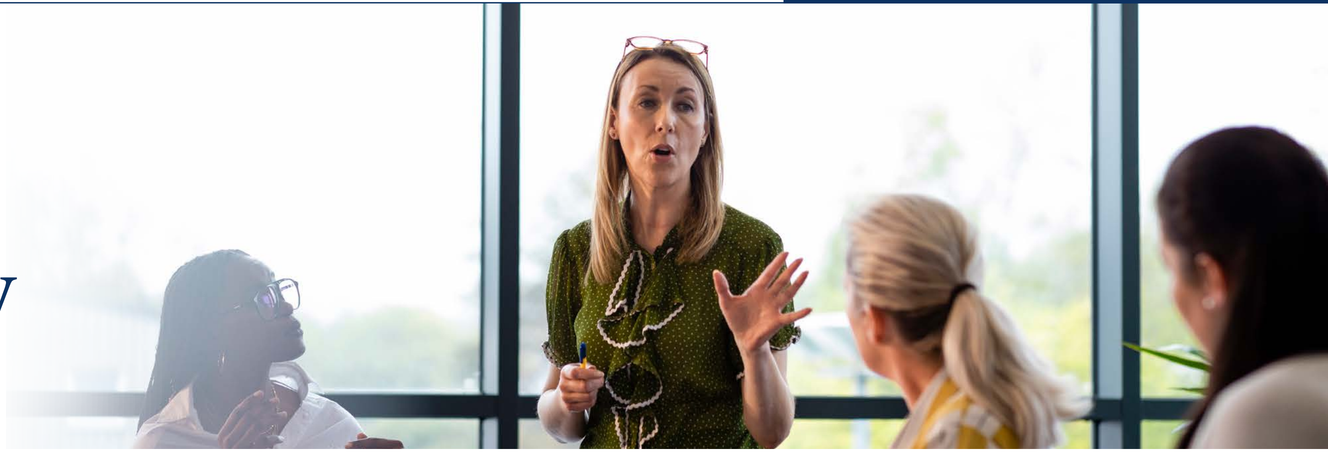
This year's study highlights several key findings, including the increasing trend of director remuneration, the critical importance of climate governance, and the evolving landscape of artificial intelligence (AI) use within the sector. These insights underscore the sector's dedication to enhancing governance frameworks, improving financial sustainability, and leveraging technology to drive positive outcomes.

At CBA, we recognise the vital role that NFP organisations play in addressing diverse community needs and fostering social cohesion. We are committed to supporting these organisations through specialised NFP bankers, innovative products and services, strategic partnerships, and ongoing advocacy for robust governance practices.

We hope that the findings of this report will inspire NFP leaders to continue their efforts in strengthening governance, embracing innovation, and achieving their organisational goals. Together, we can build a brighter, more resilient, and inclusive future for all Australians.

Jane Thomson
General Manager, Major Client Group
Commonwealth Bank of Australia

Executive summary



The Not-for-Profit Governance & Performance Study 2024-25 is the 16th edition of this comprehensive overview of the governance of Australia's extremely diverse NFP sector.

Over the past four editions, challenges such as the COVID-19 pandemic, the implications of various Royal Commissions, financial sustainability pressures, and severe workforce shortages have been top priorities for directors and executives.

In contrast, this year's research indicates a sense of stability as reflected in both the quantitative survey and the focus groups held in November 2024. While NFP leaders continue to face challenges, their resilience over the past 12 months has been evident, while navigating a range of issues through robust governance practices and adapting to the changing business environment.

Despite ongoing challenges like cyber security threats and the evolving landscape of artificial intelligence (AI), governance in the sector has strengthened. Notably, 81 per cent of directors surveyed reported improvements in governance compared to three years ago. Directors are also increasingly grappling with the need to address climate change in board discussions, particularly in light of new reporting requirements and pressure from stakeholders.

The study also highlights an increase in director remuneration over the past decade, with ongoing conversations about introducing remuneration for the first time in some organisations. Overall, directors believe their organisations are effectively fulfilling their purpose, though they acknowledge that some performance metrics may not yet be as robust as required.

This report underscores a sector that is increasingly focused on sustainability, effective use of technology, and enhanced governance frameworks. These developments are vital as NFPs continue to play a pivotal role in Australian society, addressing diverse community needs and navigating the complexities of an evolving regulatory and funding landscape.

This year's NFP Study has highlighted four key findings:

DIRECTOR REMUNERATION

The payment of NFP directors has steadily increased from the commencement of this study 15 years ago. This is illustrated by the proportion of directors (in this study) being paid almost doubling over the past decade.

This year, 24 per cent of respondents reported receiving remuneration, up from 21 per cent the previous year and 13 per cent in 2015. Notably, one of AICD's most downloaded articles in 2024 focused on NFP director remuneration reflecting the heightened interest in this issue. This year's study also indicates that an additional 24 per cent of directors noted that their boards are currently discussing the implementation of director remuneration.

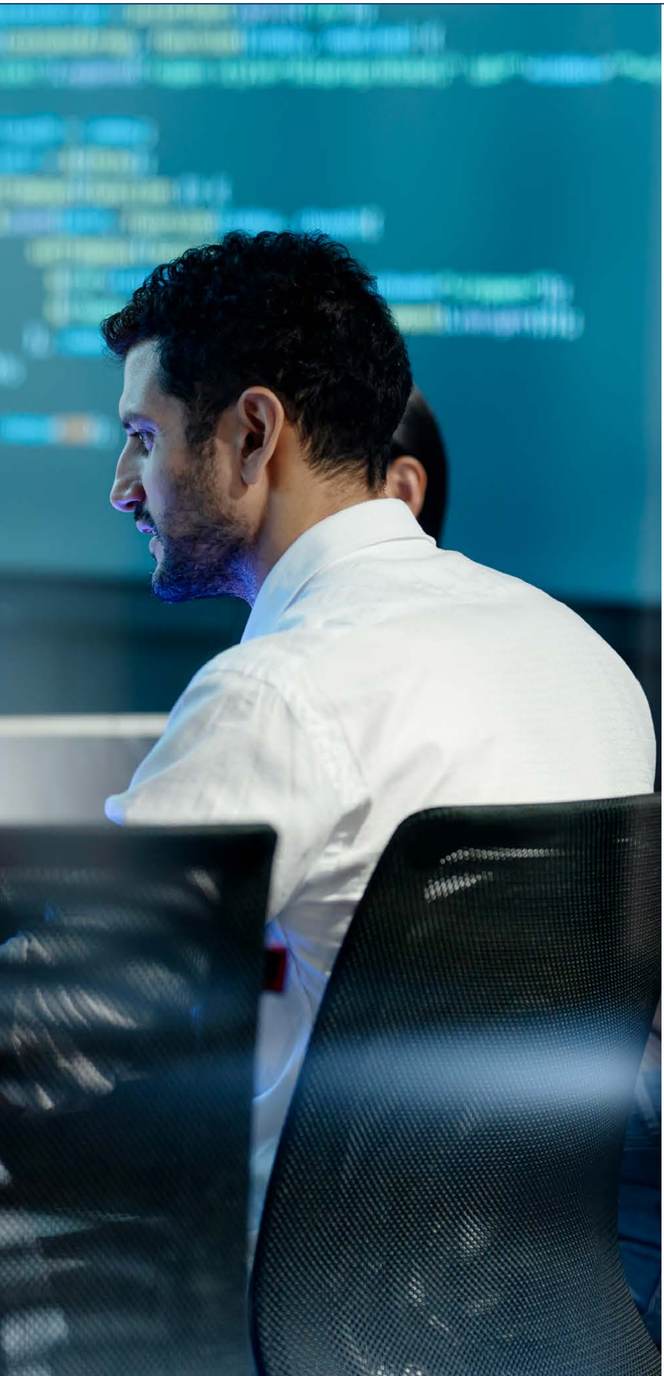
There is significant variation in remuneration trends across various sub-sectors. For example, in the health and residential aged care sub-sectors 43 per cent report receiving remuneration, compared to only seven per cent in culture, arts, recreation, and sports.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE ISSUES

The majority of respondents have environmental, social and governance issues on their board agendas each year (74 per cent), however there was also a recognition that there was not sufficient attention to 'climate change' specifically with 65 per cent stating that boards needed to have a greater focus on climate governance.

For those boards that have taken some action regarding climate change, common responses include:

- Embedding climate change within risk management frameworks (24 per cent).
- Receiving reports on climate sustainability metrics (18 per cent).
- Reassessing organisational strategy in light of climate considerations (17 per cent).



EFFECTIVENESS OF PURPOSE

Many organisations continue to face challenges in clearly articulating and measuring their impact, highlighting the need for clearer frameworks.

Approximately 84 per cent of directors state that their organisation is effective in achieving its purpose; however, many (79 per cent) are relying on CEO reports to measure this. Respondents state that regular reviews to track progress against goals are one of the most important actions to improve organisational performance.

For the second year we asked about the use of care committees. These committees are designed so that care standards are consistently evaluated and improved, aligning with the organisation's overall purpose.

Overall, 21 per cent reported having a care committee, up from 19 per cent last year. Care committees are more prevalent in human service providers with 43 per cent of health and residential aged care providers having a care committee.

CYBER SECURITY AND AI

Many directors recognise the rapidly evolving nature of IT, cyber security and AI, and are grappling with the implications for their organisations.

CYBER SECURITY INCIDENTS

Cyber incidents continue to increase, highlighting the urgent need for stronger preventative measures.

- 19 per cent of organisations experienced a cyber-incident in the past 12 months.
- The highest incident rates were reported in social services (25 per cent), health and residential aged care (22 per cent), and education (21 per cent) sub-sectors.
- Growing risks and vulnerabilities in data security continue to pose significant challenges.

AI UTILISATION

While AI technologies hold immense potential, their adoption within the NFP sector remains largely ad hoc and exploratory. Many organisations are beginning to recognise the opportunities AI presents but are still navigating its complexities.

Three-quarters (75 per cent of respondents) identified productivity improvements as the most valuable application of AI, followed by a further 62 per cent seeing it improving client experience.

Other key findings

FINANCIAL PERFORMANCE

- **Budget and profitability:** In the 2023/24 financial year, 46 per cent of respondents' organisations reported a profit (up from 44 per cent last year), 26 per cent recorded losses, and 28 per cent broke even. Most sub-sectors either met or exceeded their budgeted income.
- **Profitability across sub-sectors:** Some sub-sectors in particular increased profitability with health and residential aged care having 43 per cent reported a profit, up from 36 per cent last year.
- **Reserve use:** 44 per cent of respondents' organisations relied on financial reserves for operational needs, while 42 per cent implemented a reserves policy.

MERGERS AND WINDING UP

There is a slight increase in merger activity, with five per cent currently undertaking a merger and a further 17 per cent stating they will be having merger discussions over the next 12 months.

Approximately seven per cent of respondents believe their organisation has a 50 per cent or greater chance of merging within the next two years.

QUALITY OF GOVERNANCE AND DIRECTOR TIME COMMITMENT

Directors continue to reflect on the improvements in the quality of governance, with 81 per cent stating that their organisation's governance has improved over the last three years. This may also be linked to the time commitment for directors, with over half saying they have spent more time in their role than last year.

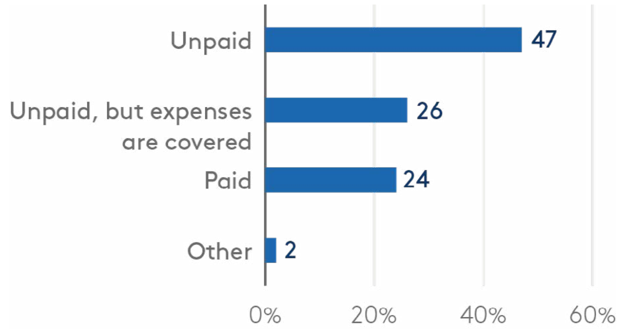
KEY FINDING ONE:

Director remuneration

PAYMENT OF BOARD MEMBERS

This study highlights a continued upward trend in the remuneration of directors within the not-for-profit sector. Just under a quarter (24 per cent) of surveyed directors report receiving remuneration, compared to just 13 per cent a decade ago and 21 per cent last year.

The predictors of director remuneration: Our researchers analysed the factors most likely to predict whether a NFP organisation will pay its non-executive directors. Not surprisingly size of organisation was a key factor, as was business stability and expected growth. Attracting expertise was also a very common factor in the likelihood of remuneration.



Base = 1023

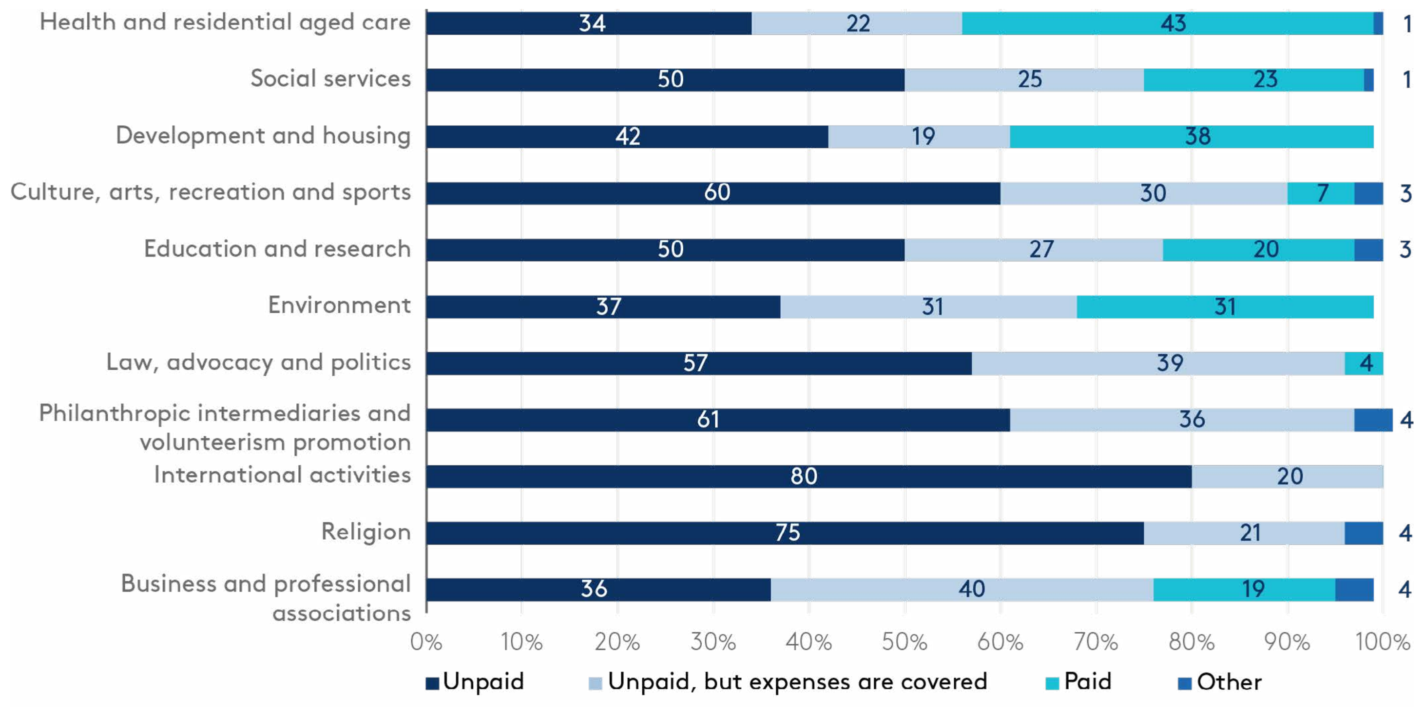
A substantial portion of non-executive directors (73 per cent) serve without direct compensation (26 per cent) receiving expense coverage only). Twenty-four per cent are paid.

"All of the non-for-profit boards that I work with aren't remunerated. I'm in a privileged position. I can do that. But gee! A lot of people can't. They're exposed to the same level of risk as well-remunerated board members."

\- NFP study respondent

PAYMENT OF BOARD MEMBERS (BY SUB-SECTOR)

The remuneration of non-executive directors across the NFP landscape reflects the diversity and unique challenges of each sub-sector. There are significant variations in remuneration practices, with health and residential aged care standing out, as 43 per cent of respondents in this sector reported being remunerated.



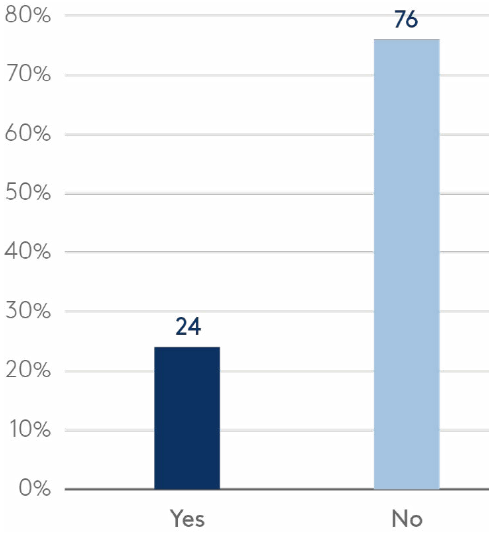
Rounding – Some percentage graphs may slightly exceed or be less than 100% due to rounding.

Base = 1023

Some sub-sectors show an increase in directors being remunerated in comparison to last year, including social services (18 per cent to 23 per cent) and health and residential aged-care (37 per cent to 43 per cent). Interestingly, development and housing reported a decrease (40 percent to 38 per cent).

DISCUSSION ABOUT PAYING BOARD MEMBERS

The survey reveals that 24 per cent of boards have discussed the possibility of paying non-executive directors in the last 12 months, similar to last year's study.



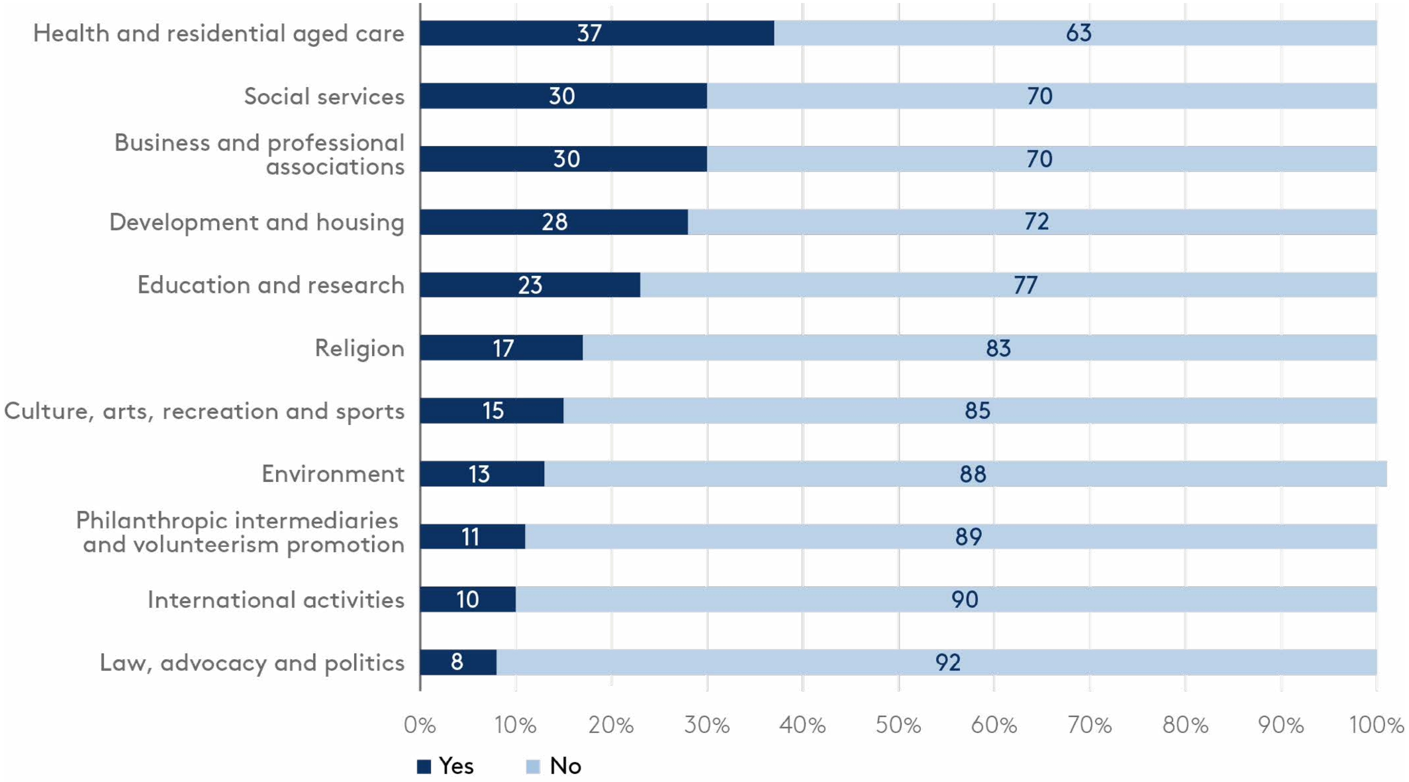
Base = 759

“...we actually pay the lived experience people to attend board meetings. We pay junior board members to be there too, because they don't have the luxury.”

- NFP study respondent

DISCUSSION ABOUT PAYING BOARD MEMBERS (BY SUB-SECTOR)

A breakdown by sub-sector shows health and residential aged care (37 per cent), social services (30 per cent) and business and professional associations (30 per cent) are most likely to have discussed paying board members within the last 12 months.



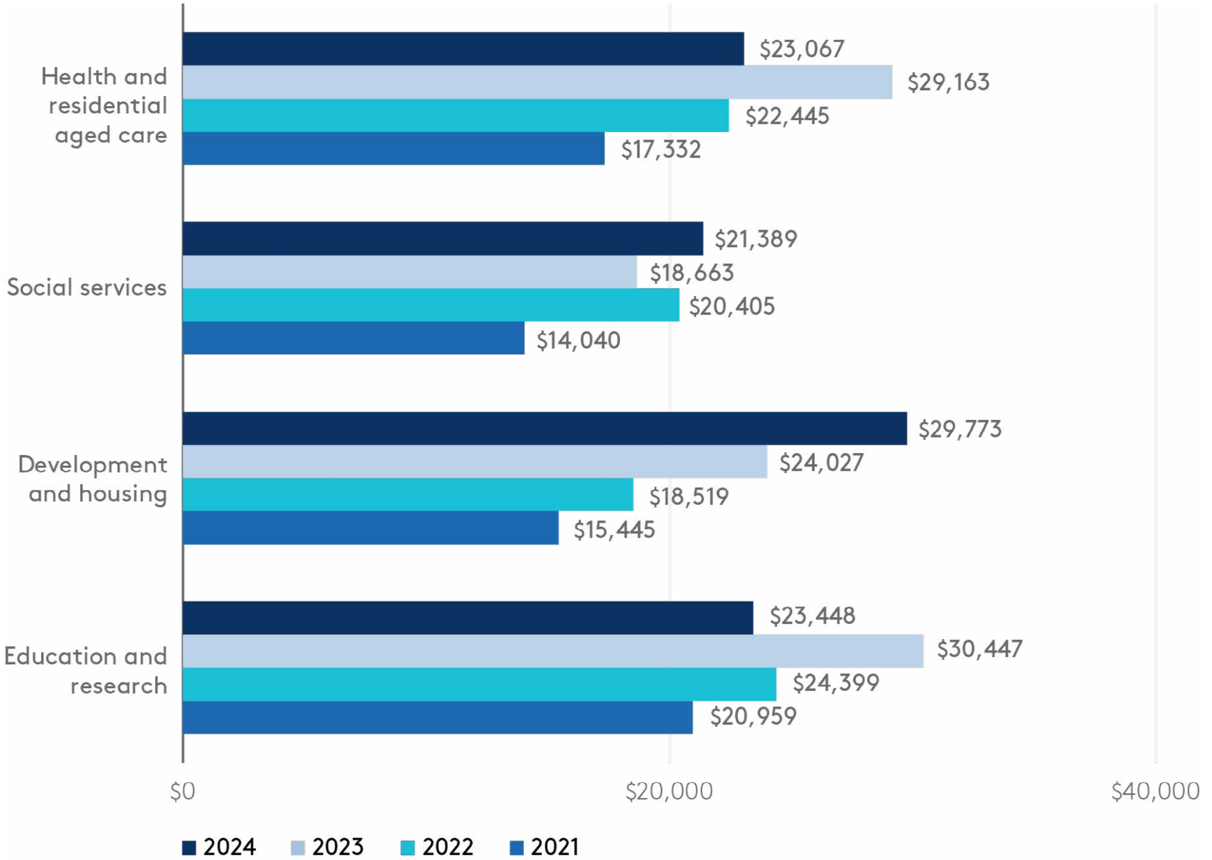
Rounding – Some percentage graphs may slightly exceed or be less than 100% due to rounding.

Base = 759

The landscape of director remuneration within the NFP sector is shifting, driven by evolving governance and regulatory obligations, the growing complexity of organisational operations, and increasing expectations placed on boards.

AMOUNT PAID TO BOARD MEMBERS (BY SUB-SECTOR)

The data on trimmed average compensation for non-executive directors from 2021 to 2024 reveals fluctuating trends.



This variability reflects the evolving landscape of director compensation, influenced by sector-specific demands and financial resources. For example, the study has noted the increased time commitment and greater obligations of directors in human service organisations in particular.

QUESTIONS FOR CONSIDERATION

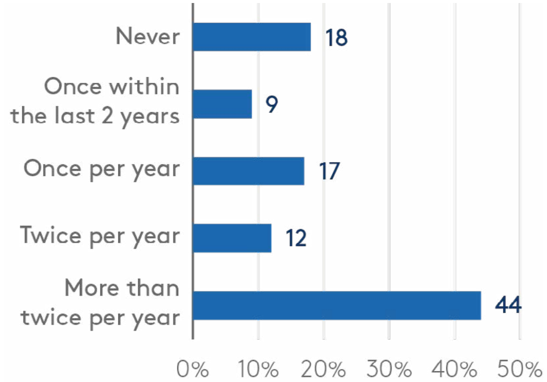
1. Are we struggling to find suitable directors and would paying them improve that?
2. Are our remuneration policies (for executives and directors) up to date?
3. Can we afford to remunerate directors?
4. Would our key stakeholders (e.g. funders, volunteers, regulators) have concerns on remunerating directors?
5. Would remuneration assist in getting people with lived experience on our board?
6. Are our levels of remuneration appropriate and comparable to similar organisations?

KEY FINDING TWO:

Environmental, social and governance issues

FREQUENCY OF BOARDS ADDRESSING ENVIRONMENTAL, SOCIAL AND GOVERNANCE ISSUES

The survey shows that a majority of NFP boards (73 per cent) have a focus on environmental, social, and governance (ESG) issues, incorporating these topics into their agendas at least once a year or more.



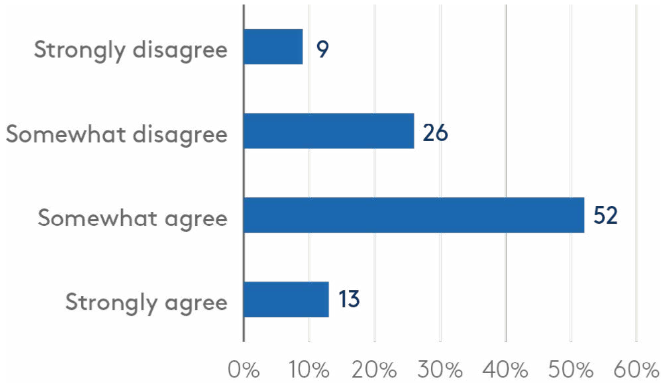
Base = 921

This is the second year the study has investigated broader ESG issues. Specifically, the question asked was 'How often do 'ESG' issues *(Environmental - reducing our impact on climate and nature, Social - improving equity for individuals and communities, Governance - ensuring accountability, transparency and trust)* feature on the board's agenda?'

While there was little difference from last year's responses, there is considerable difference in how regularly boards are discussing ESG. Almost half (44 per cent) of respondents' boards have ESG issues on their agendas more than twice per year. However, in contrast almost a quarter rarely, or never address ESG issues.

BOARDS TO INCREASE ATTENTION ON CLIMATE GOVERNANCE

When asked whether their board should increase attention to climate governance, a majority of respondents (65 per cent) either agreed or strongly agreed.



Base = 939

STEPS TAKEN BY BOARDS TO ADDRESS CLIMATE GOVERNANCE

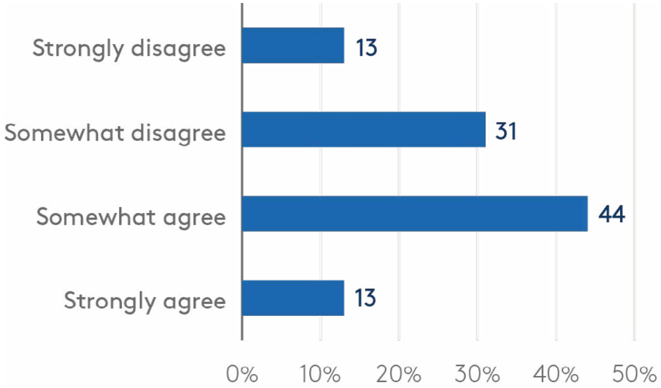
While there is growing recognition of the importance of climate governance, more than half of respondents' (55 per cent) have yet to take any steps to address climate-related risks and opportunities.

Base = 959

For those who have taken some action, 'embedded climate change into risk management frameworks' (24 per cent) is the most common. Other actions include 'receiving a board report on climate sustainability metrics' (18 per cent) and 'reconsidering organisational strategy' (17 per cent).

BOARD COMPETENCY IN ADDRESSING CLIMATE GOVERNANCE ISSUES

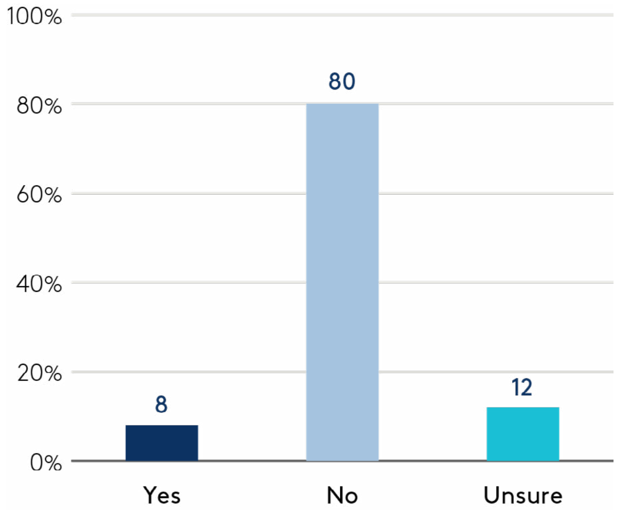
A majority of respondents (57 per cent) agree that their boards possess knowledge and experience to address climate governance issues.



Base = 875

MANDATORY CLIMATE REPORTING

Only a small proportion of NFP organisations will be initially subject to the mandatory climate reporting regime[1], with only eight per cent of surveyed organisations falling within its scope.



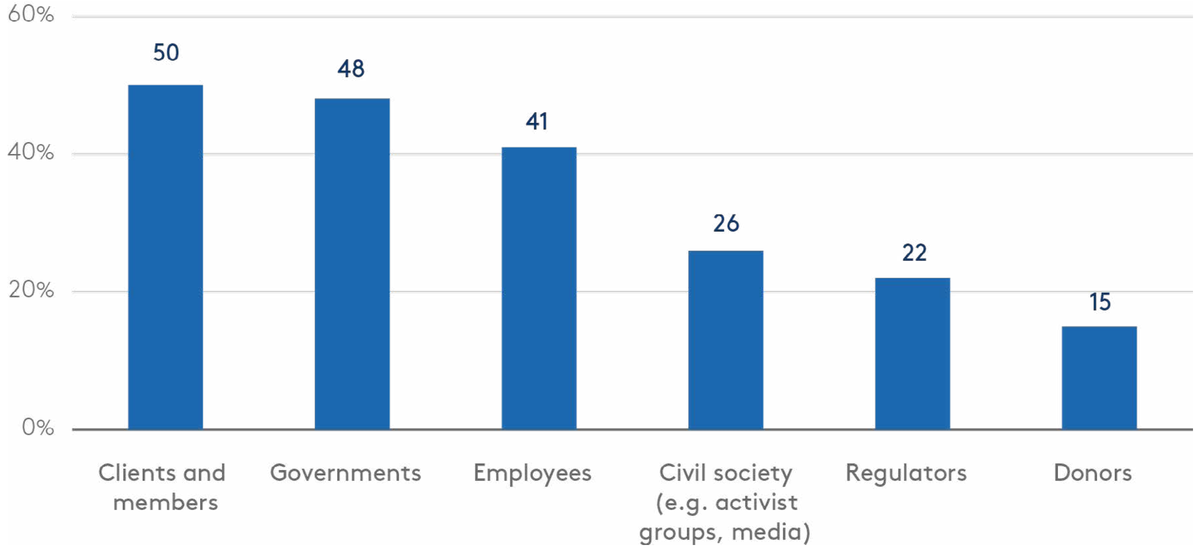
Base = 973

While most NFPs will not be directly impacted in the first phase, the introduction of mandatory climate reporting highlights the increasing emphasis on climate governance and transparency, encouraging boards across all sub-sectors to consider the implications for their own operations and governance practices.

1 Mandatory reporting on climate commenced 1 January 2025: Climate reporting legislated | Australia's path to net zero

PRESSURE FROM STAKEHOLDERS

NFP organisations face differing levels of pressure from stakeholders to address climate change. Clients and members (50 per cent), governments (48 per cent), and employees (41 per cent) are the primary sources of pressure.



Base = 384

> Some funders and philanthropists are prioritising climate governance, highlighting the need for directors to expand their expertise to emerging issues such as climate governance.

> "I think the expectations of what a director needs to be across are obviously growing very substantively."
>
> - NFP study respondent

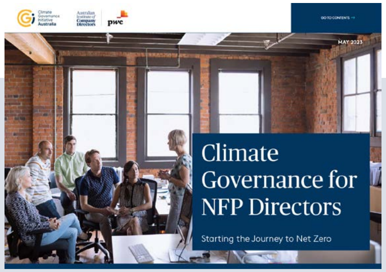
QUESTIONS FOR CONSIDERATION

1. Are we impacted by the mandatory climate reporting regime?
2. What are the expectations of stakeholders on ESG issues?
3. Do we have a climate governance policy and is it appropriate?
4. Do we understand our environmental footprint and our impact on climate change?
5. Does the board and executive team have the appropriate skills to manage these issues?

RELATED READING

Climate Governance for NFP Directors: Starting the Journey to Net Zero

A Director's Guide to Mandatory Climate Reporting | Version 2



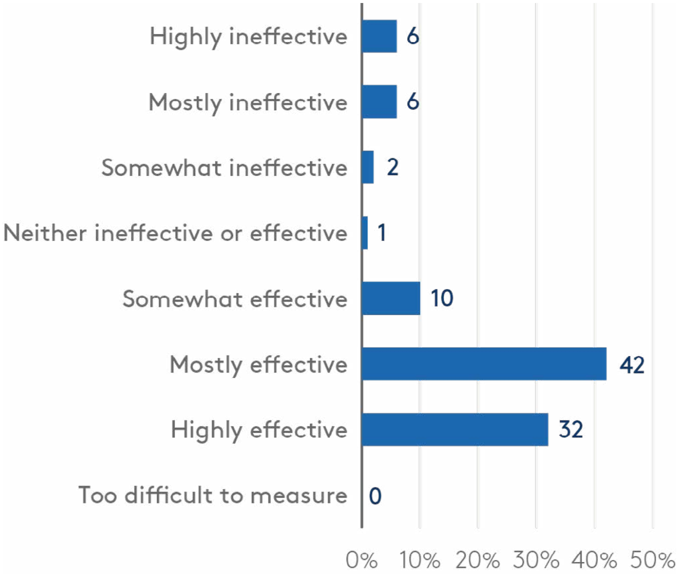
KEY FINDING THREE:

Effectiveness of achieving purpose

EFFECTIVENESS IN ACHIEVING MISSION

The survey indicates many organisations continue to face challenges in articulating and measuring their impact, highlighting the need for clearer frameworks to enhance understanding and accountability.

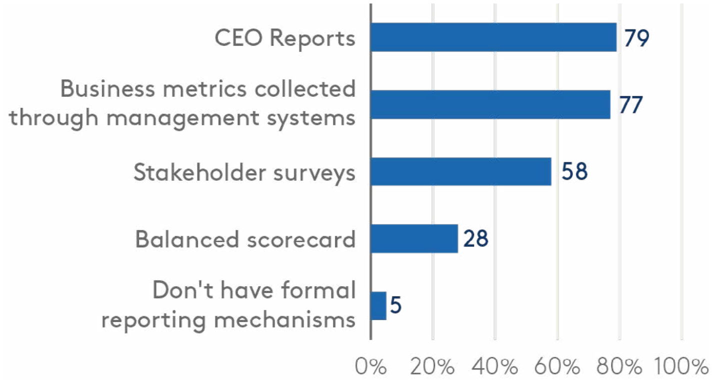
There is growing recognition of the importance of adopting tools and frameworks to better measure organisational impact. Funders including philanthropists and government grants are increasingly requiring organisations to demonstrate outcomes rather than outputs.



Base = 1057

Most organisations consider themselves effective in achieving their mission, with 84 per cent rating themselves as somewhat, mostly or highly effective. A small segment remains (14 per cent) who perceive their efforts as ineffective.

METHODS FOR MEASURING EFFECTIVENESS



Base = 1029

The use of business metrics, stakeholder surveys (58 per cent) and balanced scorecards (28 per cent) suggests a trend towards data-driven assessment in evaluating organisational effectiveness.

Note: respondents could select more than one response.

...“the way in which we use data and technology enables us to focus more on outcomes and practice and care. It's very easy to get sucked into the data that we can understand most easily.”

- NFP study respondent

TOP THREE ACTIONS TO IMPROVE THE PERFORMANCE OF THIS ORGANISATION

When asked for the top three actions for improving organisational performance respondents stated, regular reviews to track progress, improved board composition, and the development of a new strategic plan as the most important.

Base = 73 to 513

Appointing a better CEO or Chair were the lowest priority overall, indicating likely satisfaction for most organisations regarding senior leadership.

"The importance of the skills on the board reflecting the organisation's purpose. For us, it's important to have someone on the board who does champion clinical care, quality, or safeguarding, depending on what the organisation is."

"We are implementing a range of evidence-based programs. We know that if they're being implemented with fidelity, we will get results."

- NFP study respondents

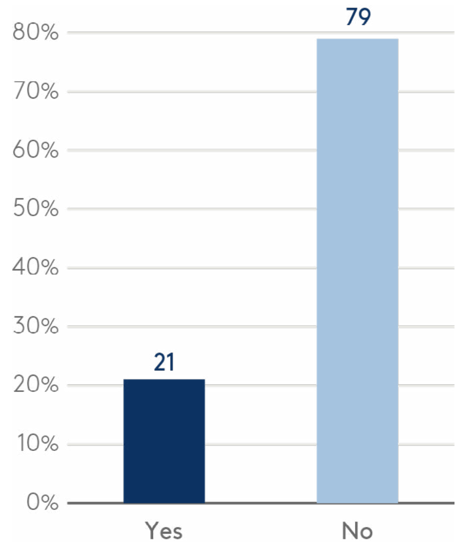
RELATED READING

Impact measurement and governance: An AICD resource for NFP directors

CARE COMMITTEE

For the second year we asked about the use of care committees. Recent Royal Commissions have concentrated on care provision and have recommended the use of such committees to focus on the quality of care provided.

Twenty-one per cent of all respondents reported that their organisation has a dedicated care committee a small increase from 19 per cent last year.

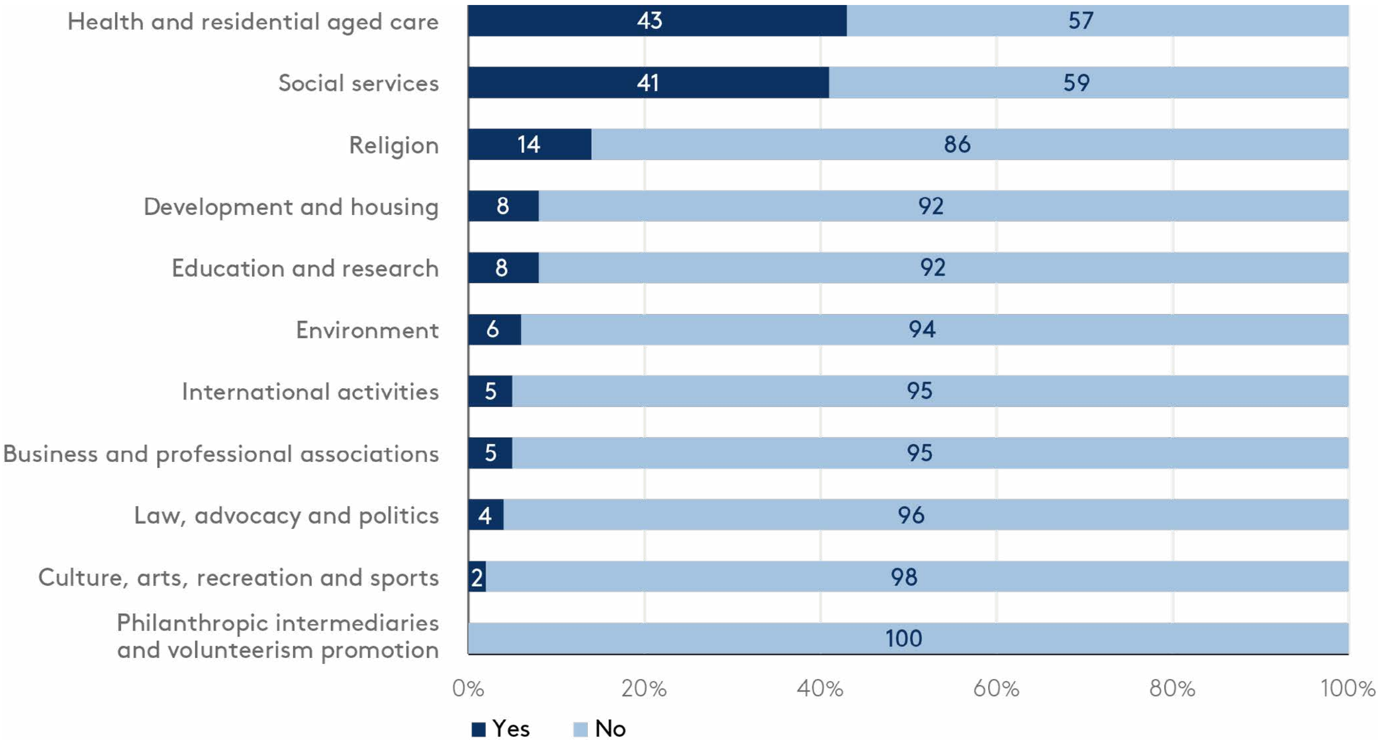


Base = 974

> "The key challenge is that we actually don't have boards that have embraced and taken on care governance to the extent that I think is needed. We've not embedded it into boards' DNA. So, for me, that's the challenge. How do we embed into boards' DNA care governance as we grow?"
>
> \- NFP study respondent

CARE COMMITTEES (BY SUB-SECTOR)

Care committees are more prevalent in sub-sectors focused on human services, such as health and residential aged care (43 per cent) and social services (41 per cent).



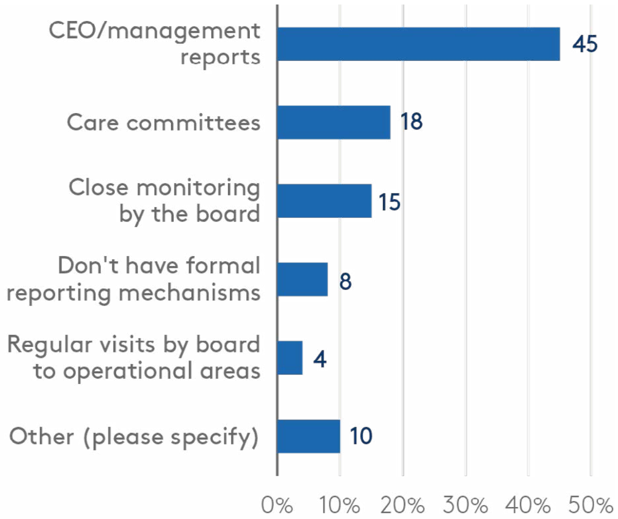
Base = 974

Care governance and the use of care committees continues to evolve. While less than 50 per cent of 'human service providers' respondents state that they have a care committee, the focus on ensuring quality care continues to increase. As one respondent pointed out, the challenge is embedding care governance into the core of boards' operations as organisations grow and mature.

> "We've started at the board level to every 6 months getting a 'lessons learned' segment."
>
> - NFP study respondent

APPROPRIATE CARE MEASURES

When asked how the board ensures that care recipients receive appropriate care and support, the most common method is through CEO and management reports (45 per cent). In contrast, only 18 per cent refer to care committees as their primary source of information.



Base = 577

"We have really in the last 12 months upped our ante regarding quality and safeguarding."

- NFP study respondent

In focus groups discussing care governance, participants reflected on the ability for sub-committees to assist in addressing serious issues and to facilitate continuous improvement. Some organisations implemented a 'lessons learned' discussion at board meetings every six months to share knowledge across facilities.

Focus groups also discussed the challenge of boards that operate in silos (e.g., finance, care, technology etc). This could sideline care governance and limit cross-functional collaboration. Care governance needs to be included in all board committees, especially finance and risk, to align decisions with care priorities.

QUESTIONS FOR CONSIDERATION

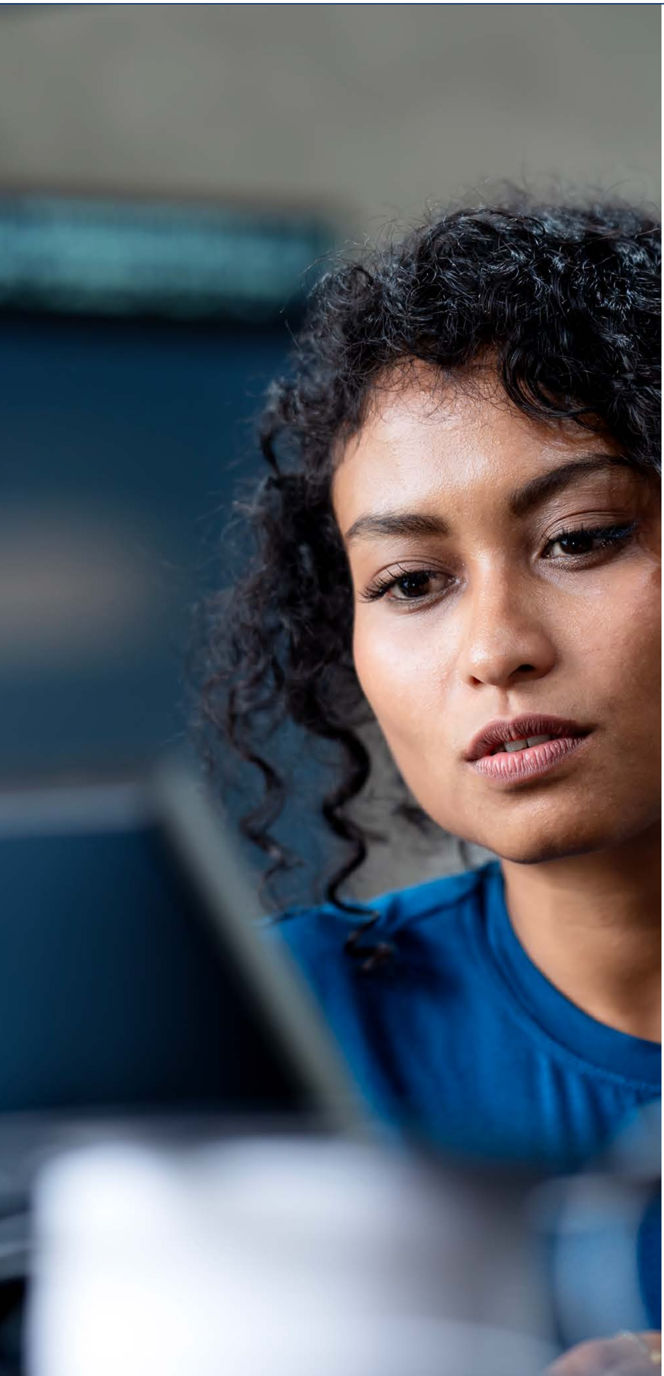
1. Do we understand our purpose and strategy?
2. How are we measuring impact and is it appropriate?
3. Are we getting the right information to properly track our impact?
4. Are we hearing the voice of client at the boardroom?
5. Do we need a care committee?
6. Have we got the right balance of skills and experience at the board and executive level?

RELATED READING

Governing for quality aged care – A director's guide

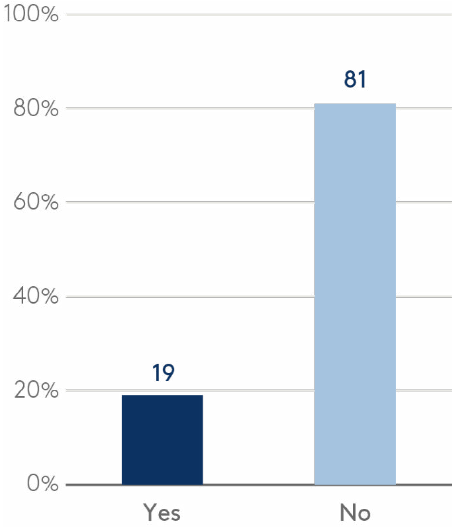
KEY FINDING FOUR:

Cyber security and artificial intelligence



TARGET OF A CYBER INCIDENT

The NFP sector is facing significant challenges in understanding and managing cyber security risks, as well as exploring and anticipating the potential opportunities and threats of utilising AI.



Base = 966

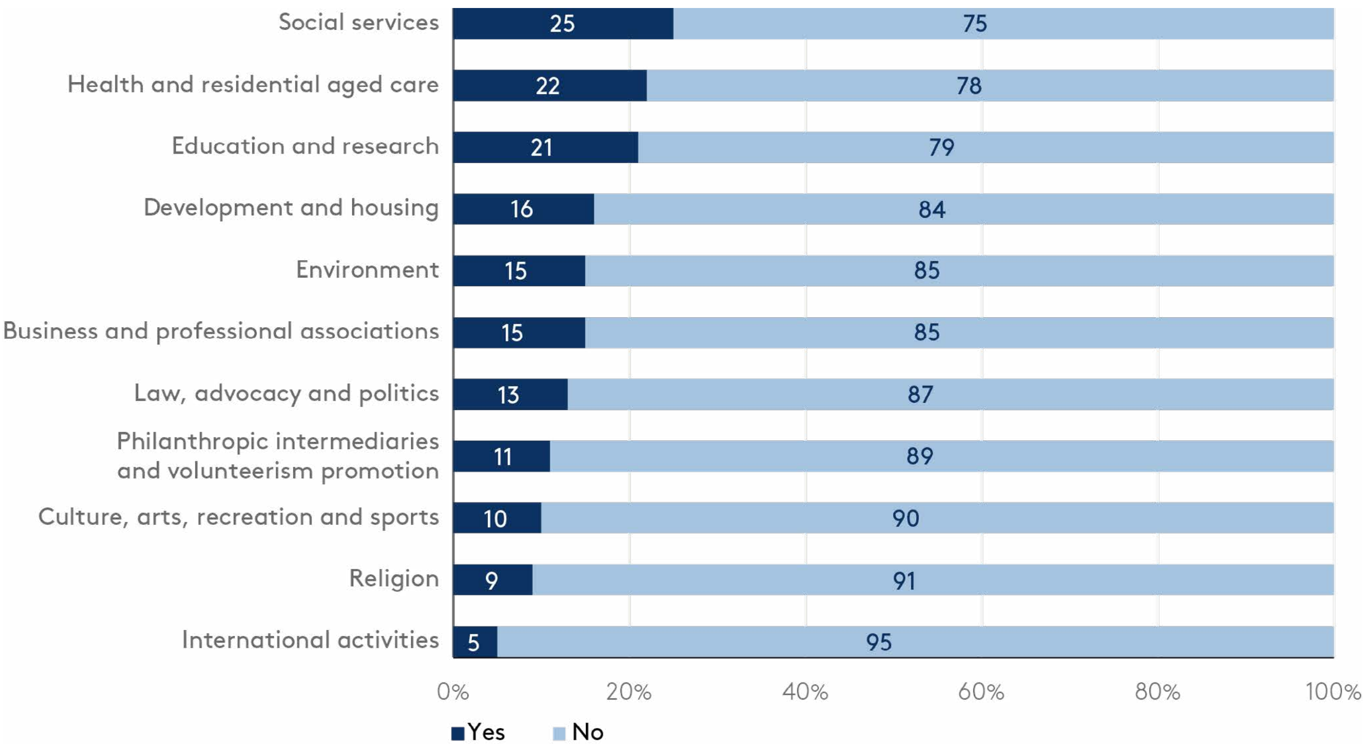
Survey responses indicate that 19 per cent of organisations experienced a cyber incident in the past 12 months. This underscores the prevalence of cyber security threat generally. The majority (81 per cent), however, have not reported such incidents. This could reflect effective security measures or a lack of detection capabilities.

"I think we all got a bit of a surprise...there was an incident. So that was a bit of a wake up about 12 months ago in terms of how do we actually know what the right data is to protect and who's got our data?....The goal posts in cyber move every year."

- NFP study respondent

TARGET OF A CYBER INCIDENT (BY SUB-SECTOR)

Comparisons of cyber incidents across different NFP sub-sectors in this study reveal varying levels of exposure. Social services (25 per cent), health and residential aged care (22 per cent) and education and research (21 per cent) are experiencing the highest proportions of reported cyber incidents.

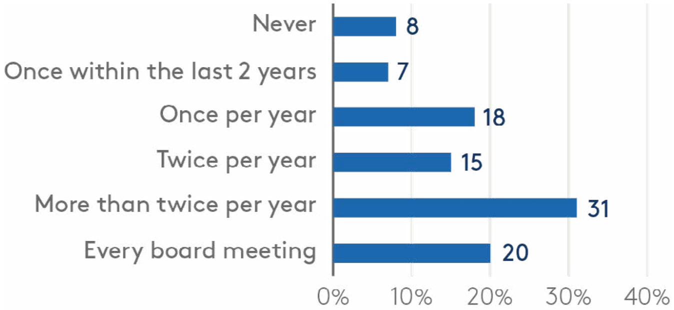


Base = 966

This distribution highlights diverse cyber risk profiles which may depend on the data maturity and data sensitivity of different sub-sectors.

CYBER SECURITY ON THE BOARD AGENDA

Cyber security has become an important and increasingly normalised topic for many boards, showing the rising awareness and need for a strong cyber security process.



Base = 940

When respondents were asked about the frequency of cyber discussions, 84 per cent indicated they occur at least once per year, highlighting the importance of the topic to NFP organisations.

Interestingly 15 per cent of respondents' boards, had either never discussed or had only discussed cyber security once within the last two years.

Discussion in focus groups reflected the challenges that many smaller NFPs have in this space. Larger NFPs with dedicated IT resources are better equipped to handle cyber security threats than smaller ones, highlighting a disparity within the sector. The ongoing development of incident response plans, penetration testing, and frameworks reflects growing maturity in cyber security practices, but also underscores the need for continued vigilance and investment.

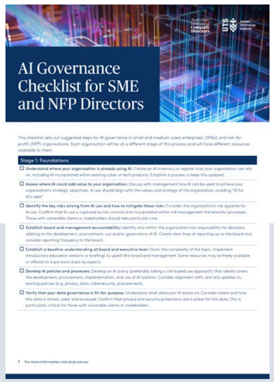
Collaboration or shared services could help smaller NFPs enhance their cyber security measures without incurring prohibitive costs.

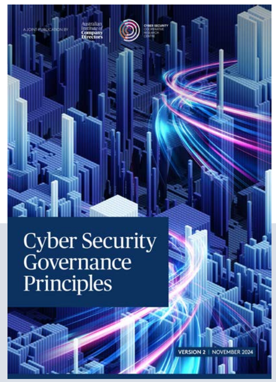
> "There are lots and lots of small, not for profits, who simply cannot afford that sort of expertise and often can't even afford to buy a consultancy to undertake that type of work."
>
> - NFP study respondent

RELATED READING

Cyber Security Governance Principles

Cyber Security Governance Principles - SME and NFP Director Checklist



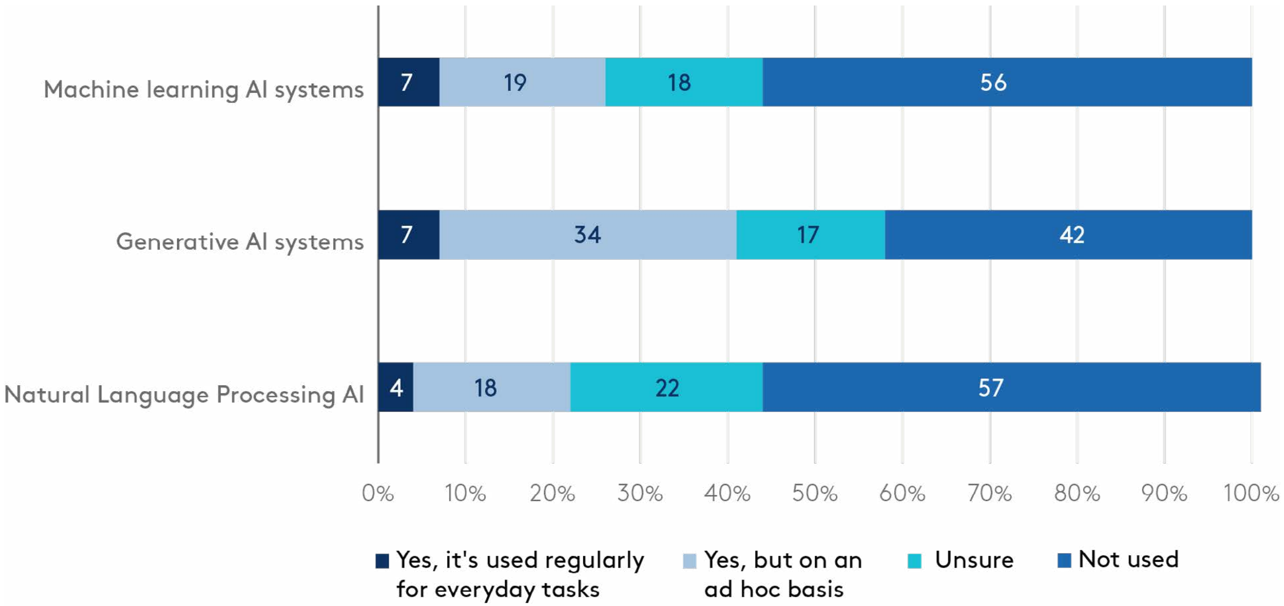


USE OF AI

In contrast to cyber security, AI adoption remains in its early stages. This is reflected in less than 10 per cent of respondents' organisations using AI regularly, and a further relatively small percentage using AI on an ad hoc basis. Generative AI systems are the most likely to be used on this ad hoc basis (34 per cent).

ⓘ RESPONDENTS WERE ASKED ABOUT THEIR USE OF:

- Machine learning AI systems that learn from data to make predictions or decisions (e.g. Analysis tools that use historical data to produce models to predict future trends such as sales forecasts, customer behaviour, employee performance, or fraud detection).
- Generative AI systems, such as ChatGPT or CoPilot, that create new content like text, images, or music.
- Natural Language Processing AI that understands and responds to human language. (e.g. Chat bots and virtual assistants to handle customer enquiries, voice assistants like Siri or Alexa that perform tasks from a voice command, email spam filters, or content filters that sort emails into priority categories).



Rounding – Some percentage graphs may slightly exceed or be less than 100% due to rounding.

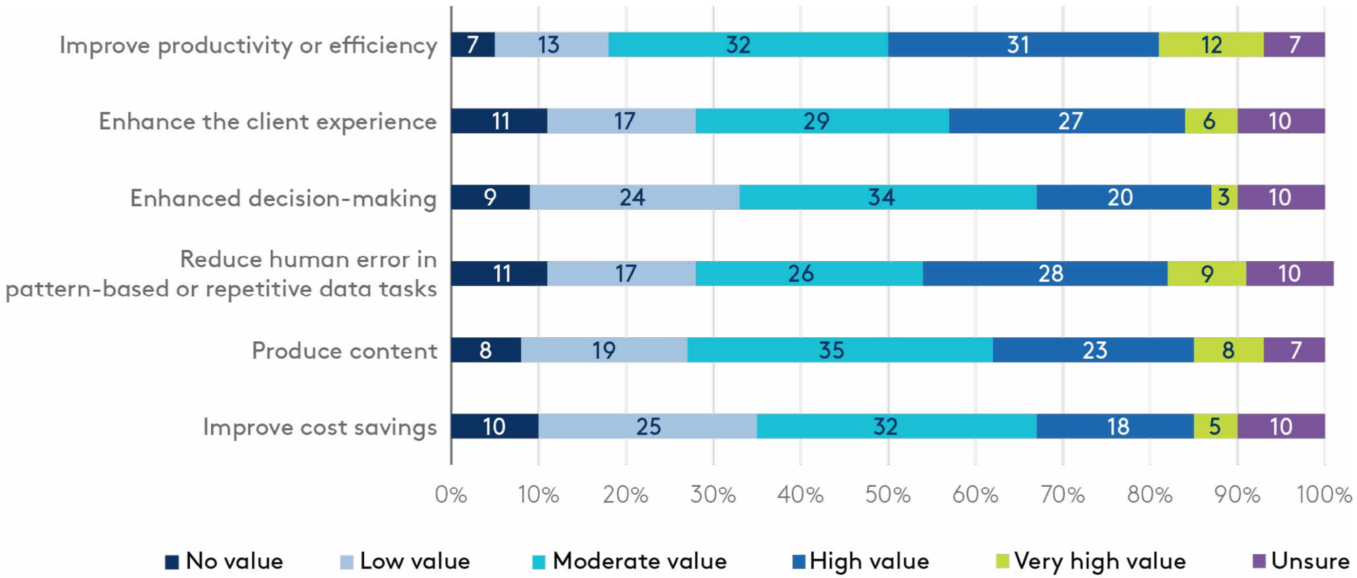
Base = 941 to 952

BENEFITS OF AI

As the NFP sector navigates these advancements, there are growing opportunities to leverage AI in governance and decision-making.

Machine learning AI, generative AI and natural language processing AI systems are more frequently used on an ad hoc basis than regularly. This may show that organisations are experimenting with AI without yet fully integrating them into daily operations.

Directors recognise several potential benefits of AI for their organisations, with improvements in productivity and efficiency most valued by survey respondents at 75 per cent.



Rounding – Some percentage graphs may slightly exceed or be less than 100% due to rounding.

Base = 616 to 946

A noticeable proportion of respondents indicated that AI does not add value or only adds low value (between 18 per cent and 35 per cent across tested benefits).

However, opinions are more divided on AI's impact on 'cost savings' and 'decision-making', with a noticeable portion of directors perceiving limited value in these areas. Focus groups reflected on being aware of the opportunities but also noted that the sector is significantly lagging behind corporate sectors in adopting AI and broader technology solutions.

Directors in focus groups noted that they mostly receive ad hoc training around AI. Being directors on multiple boards as well as having corporate experience helped develop their expertise. Some organisations engage consultants or guest speakers to educate teams about AI applications specific to their industries. The transfer of knowledge from the corporate world brings insights into AI's potential applications to not-for-profit contexts.

> "There are some positive ways in which AI can assist us. There are also some major risks with AI. But I know it is worth us exploring how technology might assist us around impact and outcome and focus on that rather than having the technology and AI drive us into more negative practices."
>
> \- NFP study respondent

> "...using AI and sensors in the room to stop residents falling out of bed. The system can monitor sleep behaviours, predict what behaviours are likely to lead to her falling out of bed."
>
> \- NFP study respondent

QUESTIONS FOR CONSIDERATION

1. Are we spending the right amount of time on cyber security
2. Are we getting the right information to determine our cyber risks?
3. Do we have an appropriate response plan for a cyber security incident?
4. Have we got a cyber safe culture?
5. What opportunities could AI offer us?
6. Who is the key individual responsible for data governance?
7. How are other similar organisations using AI?
8. Do we know what our staff are using AI for?

RELATED READING

Directors' Guide to AI Governance

Other key findings

Financial performance

PROFITABILITY

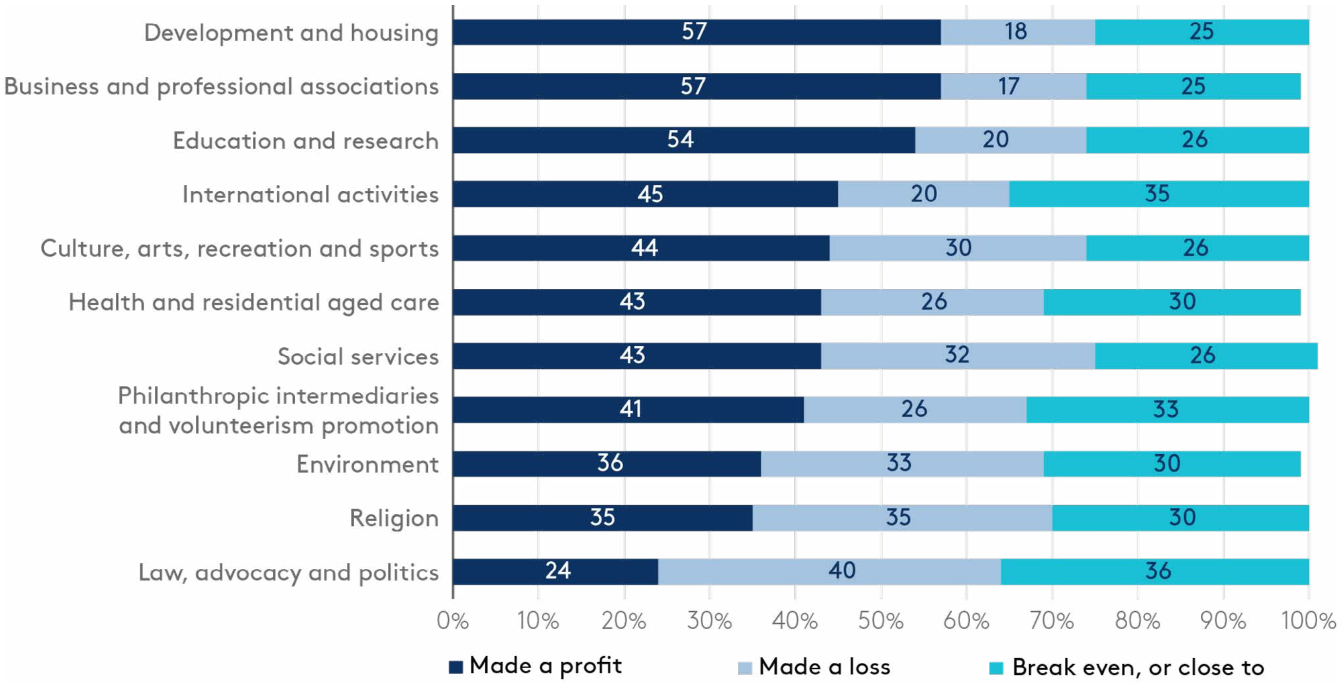
The profitability of organisations in the 2023/24 financial year reveals a range of outcomes, with nearly half (46 per cent) of respondents' organisations, 26 per cent experiencing a loss, and 28 per cent breaking even.

Base = 973

Profitability of organisations has increased from 44 per cent last year to 46 per cent reporting a profit this year. There has been considerable variability over the last five years with profitability peaking at 58 per cent for the 2020/21 financial year. This higher level of profitability was most likely due to Covid-related issues of higher government grants and a reduction in services being delivered.

PROFIT / LOSS / BREAK EVEN (BY SUB-SECTOR)

While there is diversity in financial performance across sub-sectors, it is important to recognise the improvement in profitability of some sub-sectors. In particular health and residential aged care profitability improved from last year's 36 per cent to this year's 43 per cent.



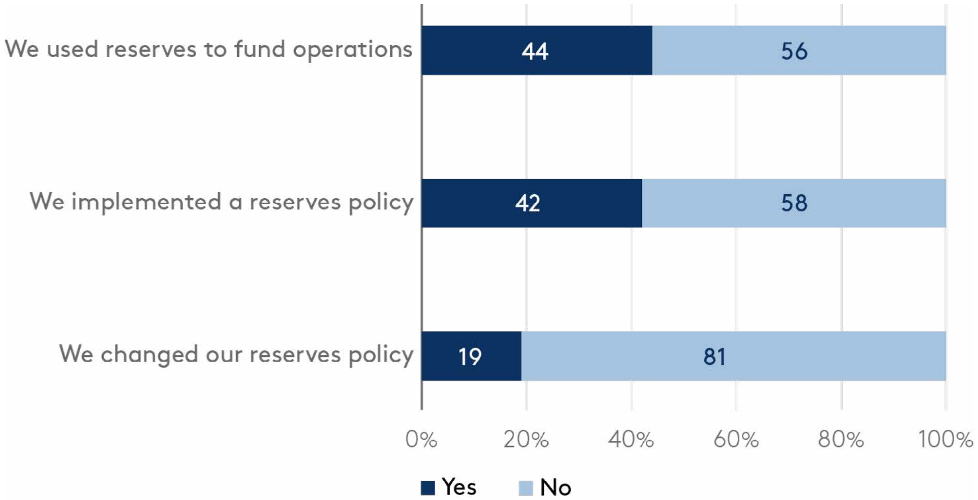
Rounding – Some percentage graphs may slightly exceed or be less than 100% due to rounding.

Base = 973

> "You've got to make a surplus because you (have) got to reinvest that back into the operations year after year."
>
> - NFP study respondent

FINANCIAL RESERVES

The survey highlights a substantial reliance on financial reserves by organisations over the past year, with nearly half (44 per cent) using these funds for operational needs.



Base = 821 to 911

While 42 per cent implemented a reserves policy, up from last year's 37 per cent, only 19 per cent altered their reserves policy, indicating satisfaction with existing strategies for most. A similar number to last year used reserves to fund operations. This may be due to cash flow issues or may be that organisations had built up some reserves during recent years and are taking the opportunity to reduce these funds on their balance sheet.

Participants in focus groups reflected on financial sustainability being a key challenge for organisations. It underpins the ability to address other challenges, yet many NFPs face restricted budgets, rising costs, and dependency on grants. Reserves are essential for resilience, with a focus on building and maintaining them for long-term sustainability.

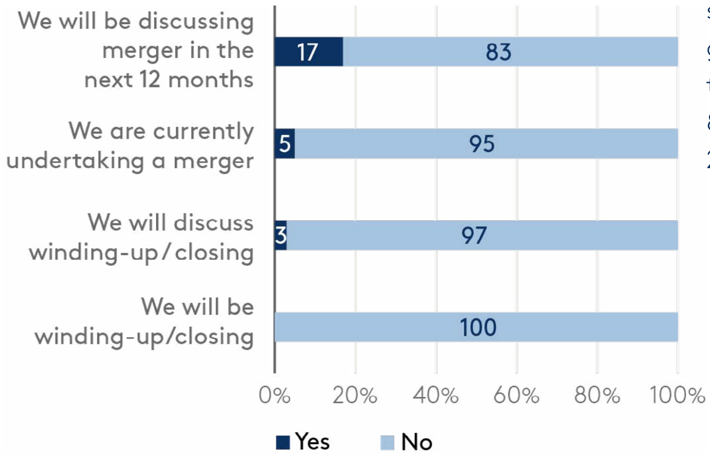
"We aim to have six months operating costs (in reserves), and we review that every year to make sure we've got that."

"Part of the strategic plan is built around how to build those reserves? Then to invest them wisely to make a return for yourself."

- NFP study respondents

Mergers and winding up

As in previous years the level of merger activity is relatively low with only five per cent of organisations undertaking a merger.

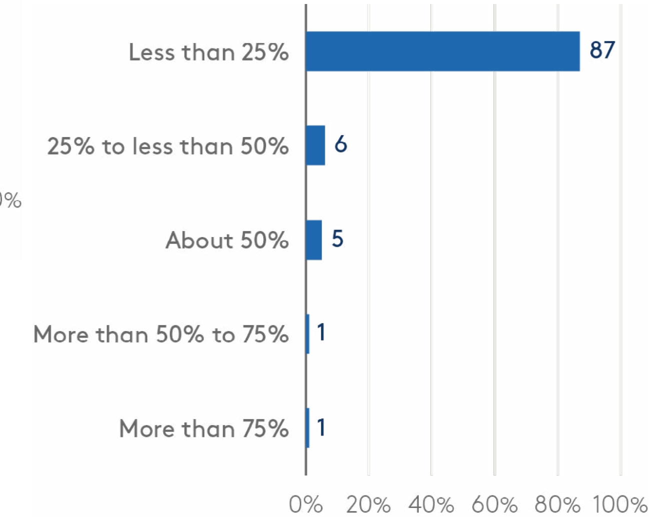


Base = from 907 to 940

There was a widely held expectation in the NFP sector that merger discussion would increase, however only 17 per cent have indicated they would be having merger discussions over the next 12 months. The expectation for increased merger activity was because of financial challenges and increased compliance burden particularly with human service providers.

PROBABILITY OF MERGERS WITHIN THE NEXT TWO YEARS

A small proportion respondents to the NFP director survey believe their organisation has a 50 per cent or greater chance of merging with another NFP within the next two years (seven per cent). A high proportion, 87 per cent, believe the chance of a merger is less than 25 per cent.



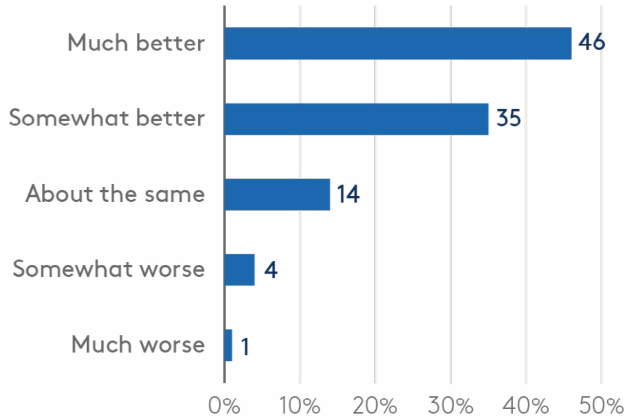
Base = 954

Quality of governance and director time commitment

The study has monitored both the quality of governance and the time spent by directors fulfilling their governance responsibilities for more than a decade.

GOVERNANCE COMPARED TO THREE YEARS AGO

Respondents showed a positive trend in their perceptions of governance quality of their organisations compared to three years ago. Most (81 per cent) reported improvements, while only a small fraction (5 per cent) feel that quality has worsened.

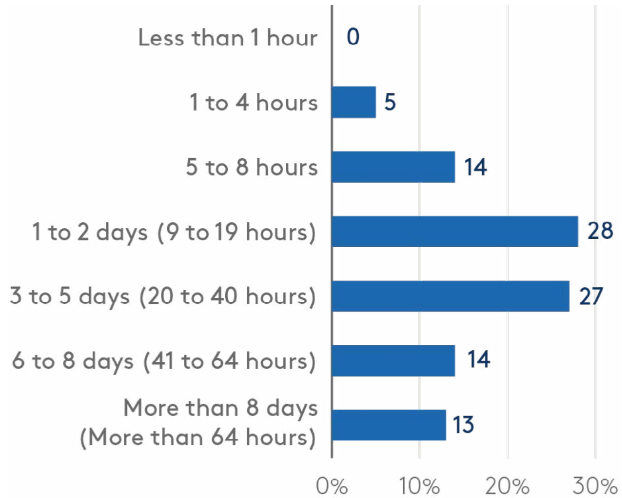


Base = 960

Participants in focus groups on how to improve governance discussed finding ways to bring the real-life experiences of service users into their decision-making. Some talked of using consumer advisory committees to gather insights without adding extra responsibilities to the board itself.

They also discussed building skills through mentorship and training to prepare people with lived experience for leadership roles in the future. By balancing experienced members with those who bring fresh perspectives, boards can improve their decision-making and stay aligned with their purpose. This approach helps create a culture that values diversity and keeps the board grounded in the needs of the people they serve.

HOURS PER MONTH SPENT ON DIRECTORSHIP DUTIES



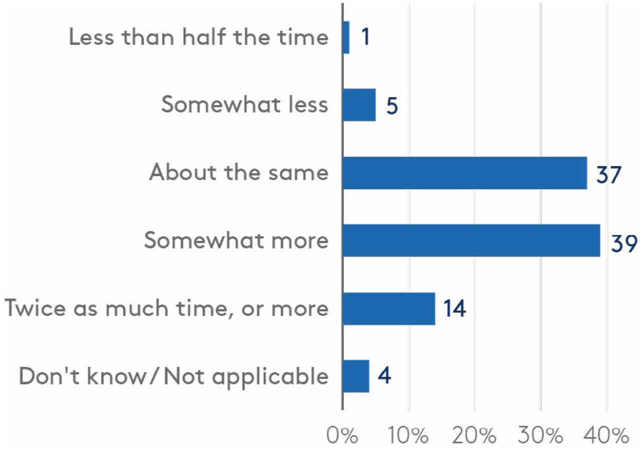
Base = 806

Most directors are deeply engaged with directorship duties with 82 per cent dedicating between one and more than eight days to their duties per month.

"I think one of the real issues is the increasing expectation of the involvement of directors in terms of being over the minutia of operational issues."

- NFP study respondent

TIME SPENT ON DIRECTOR ROLE COMPARED TO LAST YEAR



Base = 807

In the survey, directors report a noticeable increase in their time commitment compared to the last year, with 53 per cent reporting they spent 'somewhat more' to 'twice as much time, or more' on their duties.

This increasing time commitment has continued over recent years and may indicate ongoing compliance requirements and heightened expectations of the role of the non-executive director. Participants in focus groups reflected on this issue, recognising the complexity of their roles, in particular for those in human services organisations, where they are responsible for care provision.

"Overarching word is paradox. Everyone's very clear that they want to see non-executive directors in the space, but the expectation in terms of time and input and visibility is very much about an executive director type role. How do you actually hold management accountable when you're expected to be so far in the business that you can't step back and actually hold them accountable."

- NFP study respondent

"It's not only the burnout for people who are at the coal face dealing with more complicated environments, but also at the executive level. It's the time on compliance rather than purpose."

- NFP study respondent

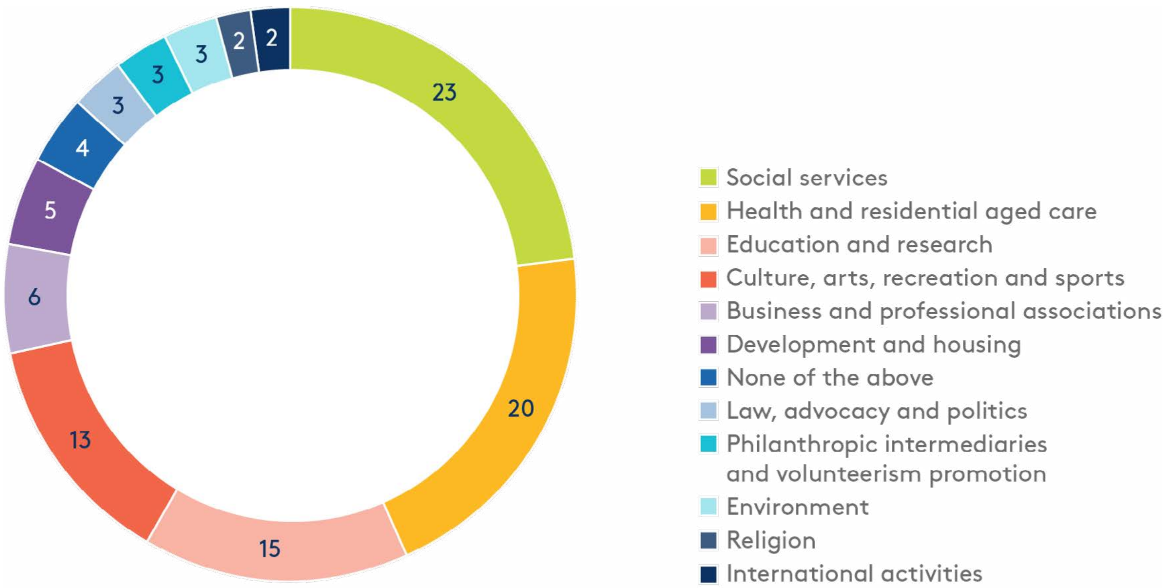
QUESTIONS FOR CONSIDERATION

1. Are we financially sustainable to achieve our outcomes?
2. Have we set or reviewed our reserves policy?
3. Would a merger (or acquisition) assist in achieving our outcomes?
4. Are our directors spending their time on the right things?
5. Do we have an appropriate succession plan for our board?

Demographics of study

SUB-SECTOR

Survey respondents came from a wide range of NFP sub-sectors. 'Social services' (23 per cent) and 'health and residential aged care' (20 per cent) were the two largest groups, followed by 'culture, arts, recreation and sports' (13 per cent) and 'education and research' (15 per cent). The remaining 28 per cent of respondents was split across eight other sub-sectors.

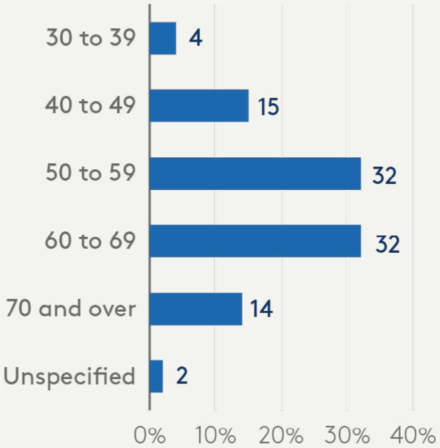


Base = 1066

GENDER

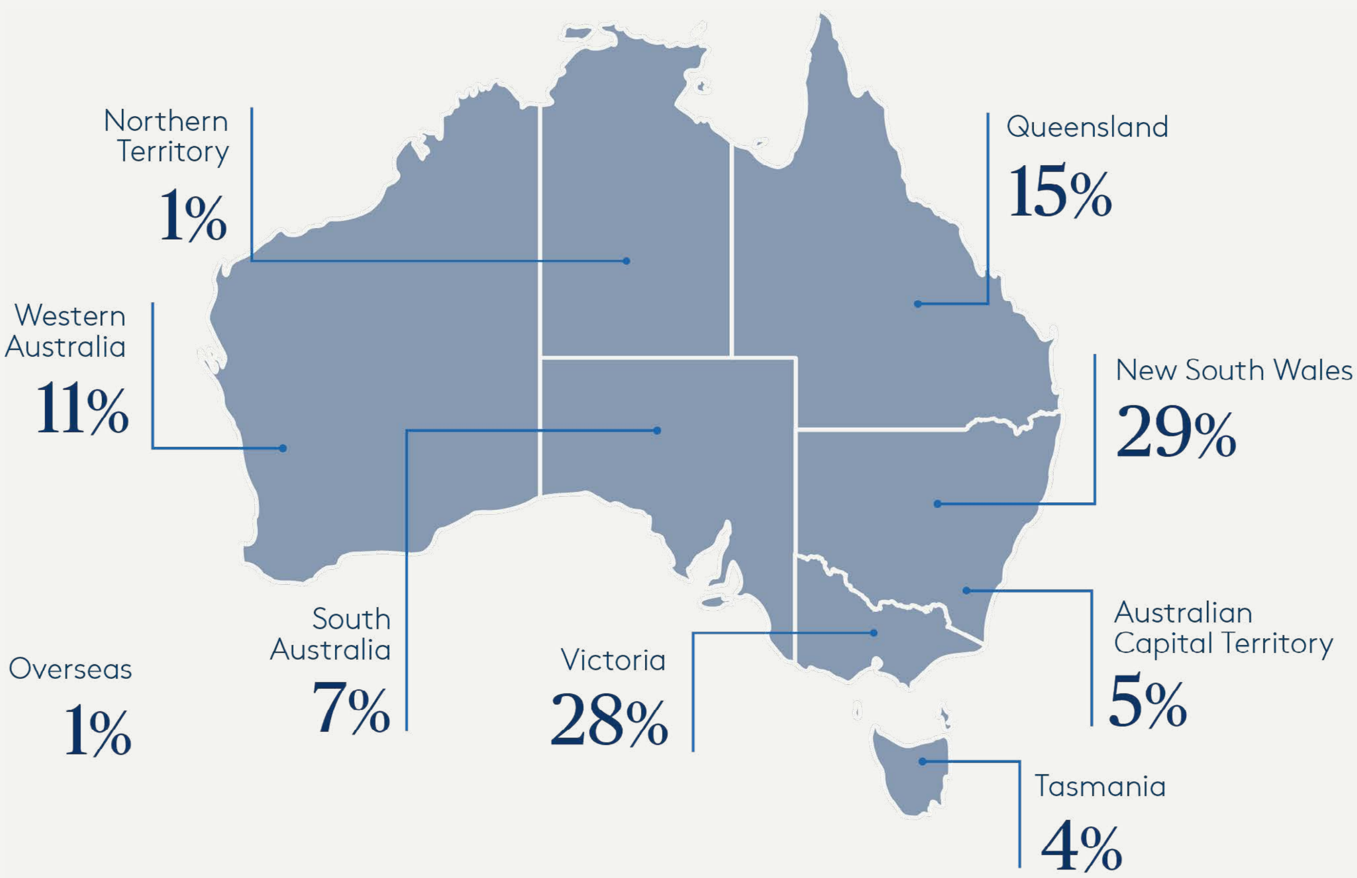
Base = 1290

RESPONDENT AGE



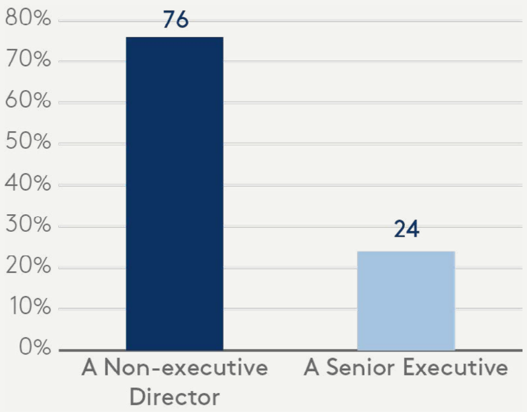
Base = 1290

RESPONDENT LOCATION



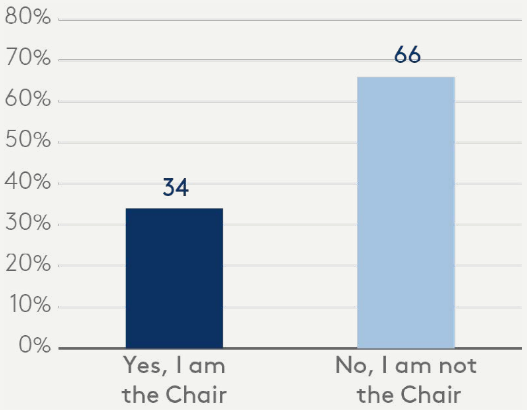
Base = 1290

DIRECTOR OR SENIOR EXECUTIVE RESPONDENTS



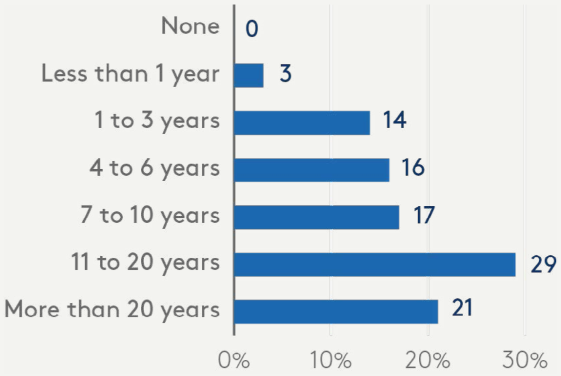
Base = 1065

CHAIR OF BOARD



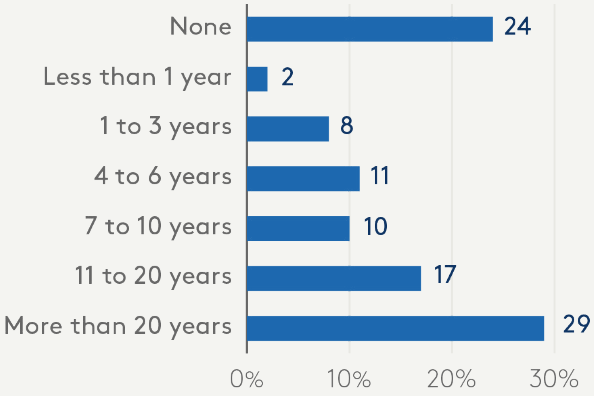
Base = 778

NFP EXPERIENCE (INCLUDING CURRENT AND PREVIOUS DIRECTORSHIPS)



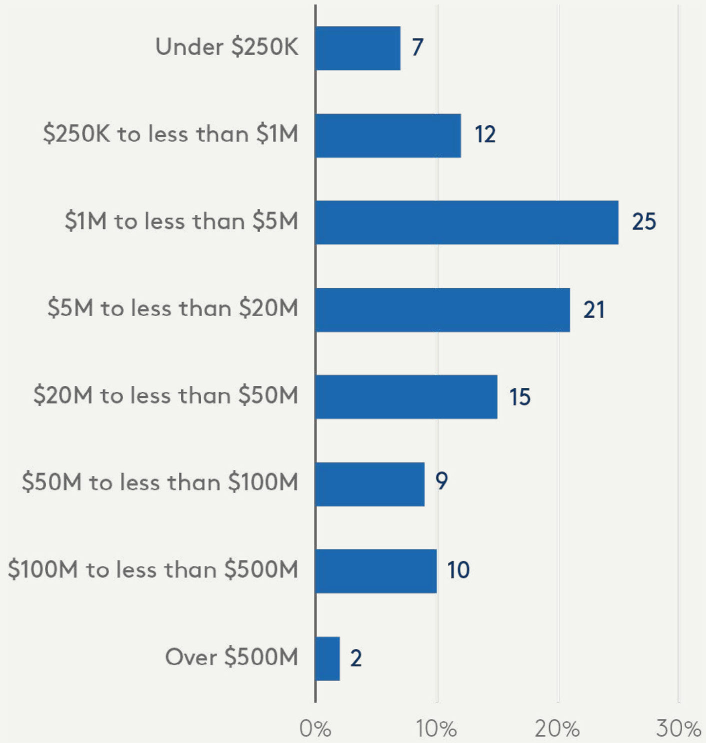
Base = 1060

FOR-PROFIT EXPERIENCE (INCLUDING CURRENT AND PREVIOUS DIRECTORSHIPS)



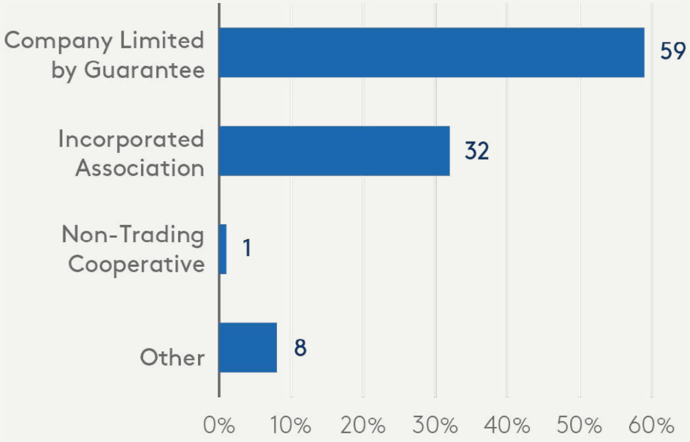
Base = 596

TOTAL INCOME FOR THE 2023/24 FINANCIAL YEAR



Base = 979

ORGANISATION'S LEGAL STRUCTURE



Base = 1064

Most of the surveyed directors were from a NFP organisation that was established as a company limited by guarantee (59 per cent) or an incorporated association (32 per cent).

Some of the 'other' legal structures of respondents included: statutory corporations, public agencies or entities (federal, state or local level), charities registered with ACNC, trust (statutory or not), and unincorporated associations.

Methodology

The Australian Institute of Company Directors partnered with Piazza Research Pty Ltd to conduct the Not-for-Profit Governance and Performance Study 2024-25.

SURVEY DESIGN AND DATA COLLECTION

The 2024-25 questionnaire was designed to maintain continuity with last year's survey while some alterations and updates where needed. The survey questions were checked against 15 technical quality checks to eliminate any issues which could impact question validity.

The questionnaire was loaded on the AICD's secure Qualtrics survey platform which was used for data collection.

SAMPLE DESIGN

The AICD membership database was the sampling frame for the survey. The survey was sent to all members. A screener question was used to filter respondents who were not-for-profit (NFP) non-executive directors.

There are approximately 22,000 NFP members on the AICD database and there were 1,290 responses to the survey. For the 95 per cent confidence interval, this provides overall results accurate to within a +/-3.0per cent margin of error.

DATA PROCESSING AND ANALYSIS

The returned survey data was analysed using Q Statistics software and MS excel. Descriptive statistics have been provided in tabular and graphical format and included in this report. When measuring central tendency, five per cent trimmed average was mostly used to remove skews caused by extremely high or low results. For questions not affected by extreme outlier results the simple average (mean) was used. In this case it has been noted in the analysis description.

FOCUS GROUPS

In addition to the survey, Piazza Research conducted focus groups with NFP non-executive directors across Australia, exploring issues related to this survey. Some of the information from these focus groups, as well as some of the quotes have been included in this study to highlight key issues.

This report was produced by Piazza Research Pty Ltd for The Australian Institute of Company Directors
Lead Consultants: Mathilde Lamerton, Grant Piazza

ACKNOWLEDGEMENT OF COUNTRY

The Australian Institute of Company Directors acknowledges the Traditional Custodians of the Lands on which we are located and pay our respects to the Elders, past and present. We acknowledge the First Nations people across this Country and recognise their unique cultural and spiritual relationships to the Skies, Land, Waters, and Seas and their rich contribution to society.

ABOUT AICD

The Australian Institute of Company Directors 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 includes directors and senior leaders from business, government and not-for-profit sectors.

For more information about Not-For-Profit Governance & Performance Study, please contact the NFP Sector team:

T: 1300 739 119
E: **NFPSectorLead@aicd.com.au**

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