

# Not-for-Profit Governance & Performance Study 2022-23:

## INSIGHT 2 - CHANGING NATURE OF GOVERNANCE: FUTURE PROOFING YOUR BOARD.

Australia's not-for-profit sector supports some of our most vulnerable communities and makes a significant contribution to the health and productivity of our society, particularly in the areas of social equity and economic prosperity.

As such, NFPs are often required to navigate unique and complex governance challenges. Addressing governance priorities may be limited by multifaceted resource constraints stemming from inadequate social infrastructure, funding limitations, and/or the capacity of the NFP itself.

The AICD's **Not-for-Profit Governance and Performance Study 2022-23** (NFP Study) highlights the changing nature of governance as an area of focus for NFP directors.

**“Amendments to the (Aged Care) Act make governing persons legally liable for breaches of the code of conduct. Directors need to take that very seriously. This is an opportunity for directors and boards to take stock of how their organisation is performing in terms of quality of support provided and the safety of that support.”**

— NFP study respondent

The recent Child Sexual Abuse, Aged Care and Disabilities Royal Commissions have shifted the goalposts around governance for NFP boards. For example, the Aged Care Royal Commission recommended the use of care governance committees which are designed to assist the board understand the level and appropriateness of care provided to clients.

According to the NFP Study 2022-23, however, few organisations are using care committees as their primary source of information regarding care. The vast majority of aged care and disability service providers reported relying on other information sources such as CEO or management reports.

The role of a board in any organisation is to provide a level of oversight that ensures optimum performance. However, the sheer weight of changes to regulation, governance and compliance means today's boards - particularly at NFPs where directors come from all walks of life - also need to develop an uncanny ability to see into the future.

The skills required to have this level of discernment require changing the mindset of directors and shifting the focus from insight to foresight. One essential component of this type of foresight, or board 'future-proofing' - and one where the AICD's Board Advance™ program has helped lift the skillsets of many of Australia's leading NFP boards - has been in succession planning.

The essential ingredient for future-proofing is ensuring that the board has the ability to make an accurate assessment of its skills inventory. This requires a 'skills matrix' and a 'skills audit'.



A skills matrix determines the nature of the company and decides what skills a board needs to do its job well. A 'skills audit' then asks what skills a board currently has and identifies the gaps that need to be filled.

**“The quality of that diverse board skillset has needed to increase. If you had eight people on your board and they were all C plus to B minus, that was definitely enough ten or twelve years ago. That’s not the case now.”**

— NFP study respondent

Succession is one area where Board Advance has enjoyed particular success. The art of succession planning is understanding what the future needs of organisations are or may be and having the right skills and board composition to meet those needs into the future. The skills and capabilities diagnostic at Board Advance allows for an in-depth examination of existing skills which provides recommendations to boards.

*Board Advance* has educational offerings and performance assessment tools that support boards in their succession planning processes.

As the environment for NFPs in Australia becomes more complex from a regulatory, compliance and governance perspective, the skills level of their boards of directors is also rising to meet the challenge.

Like a doctor, a lawyer or an accountant, directors require a certain level of skill that must be regularly refined and updated in order to stay abreast of the latest issues, regulations and growing stakeholder expectations. As such, being a director is increasingly seen as a profession and a career rather than just a hobby.

The composition of boards, too, is not just professionalising but diversifying at the same time. This means that the ideal skills matrix for your board might not be solely accountants and lawyers anymore: you may also have geologists or people with a background in marketing.

**“The Royal Commissions have forced changes in terms of upskilling of boards. I think now we’re starting to see a lot more remunerated boards. I think the critical question for the sector will be whether small and medium sized charitable entities have the capacity to deal with some of these uplift governance requirements.”**

— NFP study respondent



In today's regulatory environment, it's more important than ever for NFP boards to stay ahead of the curve on governance matters. Having been a trusted third-party to leading Australian boards for decades, the AICD is the perfect independent partner to assist boards in conducting a structured, anonymous, and confidential governance and performance assessment.

However, assessment is not simply a set and forget process. To meet contemporary governance requirements - and stay ahead of the curve - board performance must be assessed meaningfully and at regular intervals.

To support boards in understanding and meeting contemporary governance requirements, the AICD's **Board Advance** brings together the AICD's skills, knowledge and expertise to boost an organisation's performance at a board level.

*Board Advance* provides independent board evaluations that offer an opportunity to dive deep into board performance and composition, using a series of interviews with directors and providing documented analysis of any governance issues as well as recommended solutions.

Being able to clearly set out the diverse array of skills and experiences that a board has or is looking to achieve is crucial to satisfying investors and other stakeholders that the board is - as a team - well-placed to lead the organisation's strategy now and in the future.

#### **Find out more about Board Advance**

An experienced member of the *Board Advance* Team will guide your board through a fully consultative process, working with specialist AICD facilitators and subject matter experts. Enquire about *Board Advance*, please **click here**.