

SPOTLIGHT REPORT

# Paying Directors in the Not-for-profit Sector

June 2022



# Context

**The world is changing. Are not-for-profit organisations changing with it? Historically, charity and not-for-profit boards have worked for the good of the cause, with no expectation of payment.**

**The world has changed – people work longer hours and have less time to contribute, the retirement age has increased, and everyone seems to be busy – but this view of the way boards should operate persists. And that was before the global pandemic upended everything and sent volunteer numbers through the floor.**

**In this climate, organisations might be considering paying board directors, in recognition of the work they do and the responsibility they carry, and to make it easier to recruit new directors.**

**Of course, paying board directors is only one of the measures you might adopt to achieve these ends. And there are pros and cons of paying board directors that are unrelated to those outcomes.**

**The Institute for Community Directors Australia (ICDA) is regularly canvassed on the topic of whether not-for-profit organisations could or should pay directors (and, if so, how much?). With over 4000 members, over 10,000 education program beneficiaries per year, regular member surveying and a popular Board Matching Service for community boards, ICDA has unique access to good data on the topic.**

## 1. Data sources

### Survey

In September 2021, ICDA invited NFP board members and staff to respond to a short survey about paying board members. This report presents some of the headline findings from that survey as well as a range of other information to provide additional context.

The 2021 survey of ICDA members drew 1,767 responses. The survey asked four questions:

1. Does your organisation pay board/committee members?
2. Has your organisation's practice re paying board/committee members changed over the past five years?
3. What size is your organisation?
4. Any other comments?

### Board Matching Service

Since 2005, ICDA has hosted a Board Matching Service on its website (this is mirrored on the Good Jobs website). For the past three years we have asked people listing board vacancies to specify whether the position is paid (and, if so, how much payment is provided).

## 2. The results

### Does your organisation pay board/committee members?

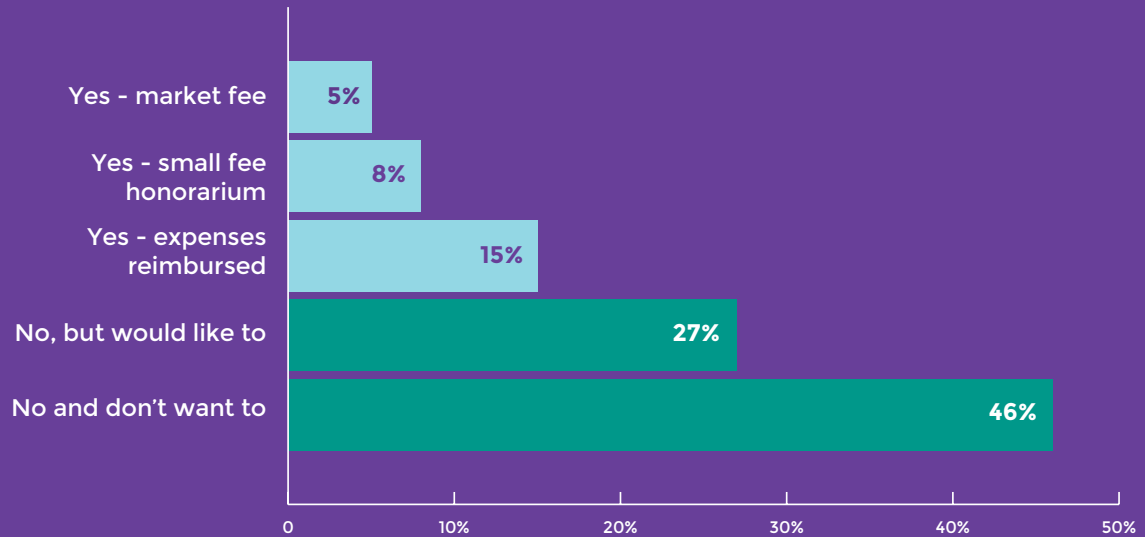


Figure 1: Data from ICDA survey, September 2021

#### Current state

Survey respondents reported on whether their organisation was currently paying community board members. Though the survey did not ask for the amount paid, some respondents volunteered that information; for example, “Chair is paid \$25k, Directors are paid \$15k plus a \$3k loading to chair a sub-committee,” and “\$10,000 each for the year.”

#### The results showed:



**28%**

of respondents were **paying something to directors** (whether reimbursement of expenses, an honorarium or a market fee)



**27%**

“would if they could”



**5%**

of respondents said their organisation was **paying what they considered a market rate** to their directors



**46%**

were **opposed** to the practice of paying directors

ICDA's online Board Matching Service hosted 1708 listings between 2018 and mid-September 2021 from organisations seeking community board directors. Of these, 1271 (74%) were unpaid roles. Of the remainder:

- 321 listings (19% of the total) indicated the director would be reimbursed for expenses
- 82 listings (5%\*) said the position was paid. Examples of payments described included:
  - o Per-meeting fees ranging from \$100 to \$770
  - o Daily rates ranging from \$150 to \$778
  - o Hourly fees ranging from \$30 to \$75 per hour
  - o Annual fees ranging from \$3,000 to \$22,800 per annum
  - o Pro rata annual fees of \$60,000-\$65,000

The survey data and the Board Matching Service data were consistent in showing that 5% of community director roles are paid.

## Remuneration of community board directors according to ICDA's Board Matching Service

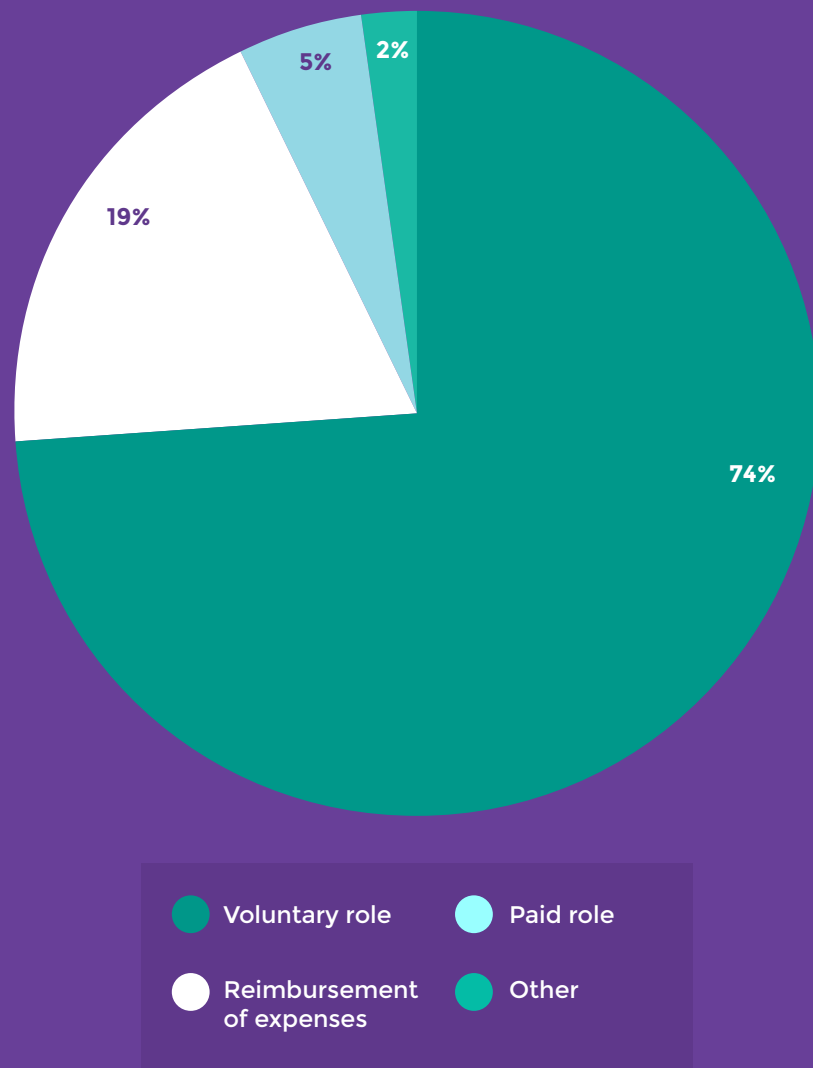


Figure 2: Data from ICDA Board Matching Service, (January 2018–September 13, 2021)

## Does size matter?

ICDA investigated whether there was a correlation between organisation size and likelihood of payment for board members, and found that there was (see figure 3). In general, the larger an organisation was, the more likely it was to pay board members, and the less likely the respondent was to be opposed to paying board members.

## Attitudinal differences by organisation size

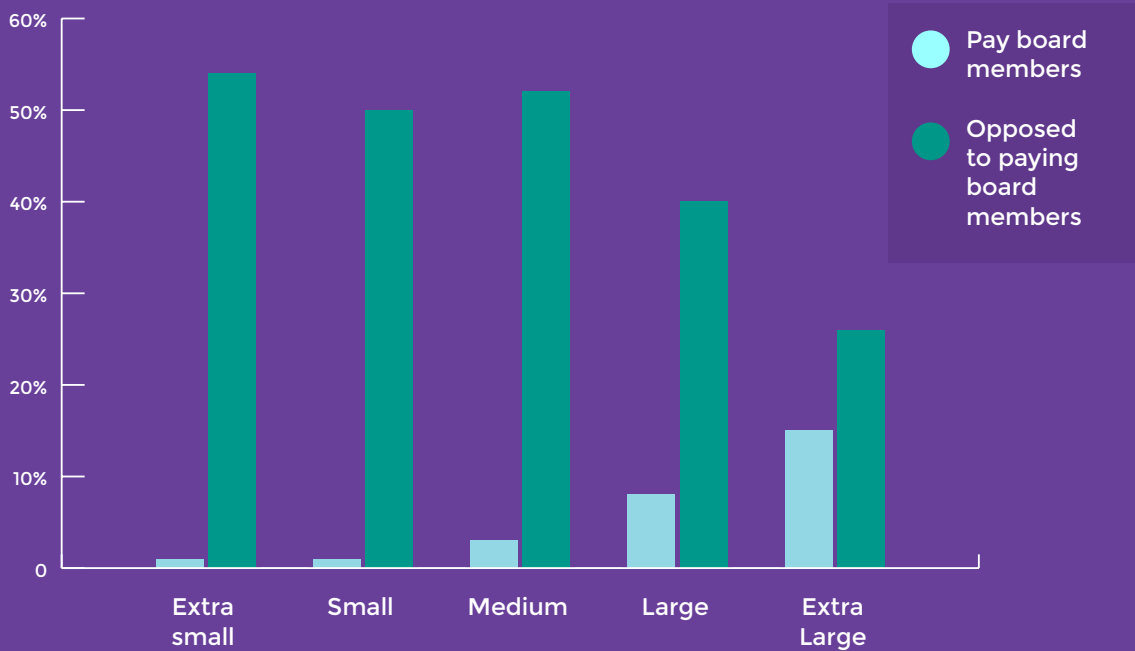


Figure 3: Data from ICDA survey, September 2021



## Have attitudes and practices changed over time?

Survey data showed that some organisations have shifted their stance over time, though the vast majority have not (figure 4). Some organisations have started paying board members more recently, and some have increased payments to directors, but others have moved away from paying board members or reduced fees in response to the covid pandemic and other forces.

## Has your organisation's practice regarding paying board/committee members changed over the past 5 years?

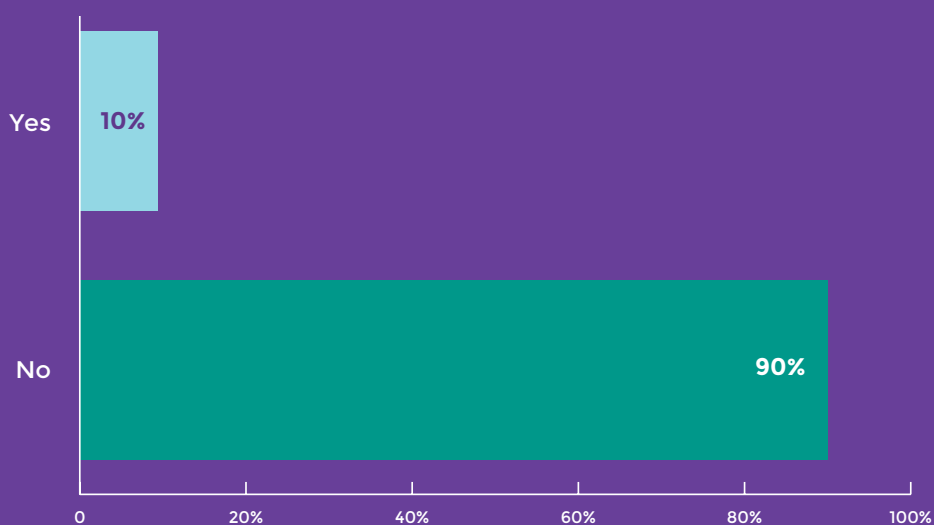


Figure 4: Data from ICDA survey, September 2021

## 3. Comparison with payments to non-community board members

In 2021, Aon and Governance Institute of Australia collaborated to publish a comprehensive analysis of board and executive remuneration, gathering insights from 413 organisations. They drew data from the annual reports of ASX300 organisations, plus approximately 100 organisations that participated in a Governance Institute of Australia remuneration survey.

The report (dated July 7, 2021) presented the following data:

- 21% of companies provided salary increases to non-executive directors in 2021, compared to 28% the previous year.
- For boards, there was a median fee increase of around 5% for the chair and 4% for members.
- The largest fee increases were for members of audit committees and risk committees.

More information (Governance Institute of Australia membership and log-in required):

<https://www.governanceinstitute.com.au/advocacy/survey-reports/aon-and-governance-institute-of-australia-board-and-executive-remuneration-report-2021/>

## 4. Case studies

### Case study i

Treasurer Harry Edwards of The Sanctuary - The Hills Women's Shelter in northwest Sydney, a joint winner of the 2021 Commonwealth Bank Not-for-profit Treasurers' Awards, said he "would lean towards not paying board members".

He said his view was formed by the belief in his organisation that the greatest proportion of funds possible should be allocated to "frontline services" and that adopting payments for board members created problems related to supervising and controlling payments.

Mr Edwards said he believed any payments should be subject to an "upper ceiling" to protect money raised by an organisation for its main mission.

"The other question is: 'Who would oversee and ensure that the amounts being paid are in line with the sector's expectations?'"

"Controversy regularly erupts about remuneration in publicly listed companies, and what's being paid to boards and CEOs, and often that arises because there's a lack of supervision."



**HARRY EDWARDS**

**Treasurer**  
**The Sanctuary -**  
**The Hills Women's**  
**Shelter**

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### Case study ii

Fellow award-winning community treasurer Catherine Pazvakavambwa from Perth-based community radio station RTR-FM said payment could be appropriate in some large not-for-profits doing "higher level" work and where professional directors were involved.

"I can see why some board members need to be paid. Sometimes the level of work that's required is immense."

But paying not-for-profit directors more broadly represented a slippery slope, she said.

She said paying board members created a new set of expectations and a new type of accountability.

"If it starts to become a paid position, that is a different kettle of fish. Your requirements change and now it's almost commercialised. How do you hold a board member accountable for the pay, what does that look like?"

She said the role then became "like a second job", yet it would be "very hard to hold someone accountable". Payments also begged the question of whether a person should be considered to be an employee, and should they fall within other employee rules.

"That presents its own issues too," she said.

She argued that organisations could often get better value for money by paying outsiders instead of paying board directors.

"I'd rather for that money to be reserved for external help, for consultants, where I feel this has gone beyond me; we need help because I don't know everything."



**CATHERINE**  
**PAZVAKAVAMBWA**

**Treasurer**  
**RTR-FM**

## 5. Why board members should and should not be paid

In analysing the free text comments made by survey respondents who do and do not pay directors, ICDA noted some themes:

### Arguments for paying community board directors

- It gives organisations access to better quality directors
- It gives organisations access to directors with more diversity of background and life experience
- It's only fair to pay people for their time and expertise
- It allows organisations to set performance expectations.



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### Arguments against paying community board directors

- Organisations cannot afford it or do not want to do additional fundraising to pay for this
- Organisations do not feel they need to - people are happy to volunteer
- Organisations say it is not appropriate to use members' or government money for this.
- Paying for board members would undermine their moral authority in fundraising
- Organisational representatives say it runs contrary to their values or culture
- It may undermine the ethos of the community/not-for-profit/charity sector
- Payment could attract people with the wrong motives
- It would create two classes of volunteers or change the organisation's dynamics
- It could introduce more risk/liability/conflict of interest issues
- Board members are already recompensed through professional development, networking opportunities, esteem or creation of a better world
- Directors should be *donating*, not being paid
- It is too difficult to determine appropriate rates of pay (especially given directors often contribute unevenly)
- Organisations report that it is not appropriate for a small organisation (but may be for a bigger organisation or an organisation with higher or different responsibilities).





## 6. Considerations for organisations considering paying board directors

These are the headline issues organisations need to take into account.

- Boards moving to introduce a payment scheme should ensure:
  - the board has taken all relevant considerations into account
  - the board has arrived at the decision through a proper process
  - the amount paid is not excessive.
- From 1 July 2022, some medium and large charities are required to report remuneration paid to responsible persons. The information will be published on the ACNC Charity Register.
- Boards should consider legal constraints, including:
  - any constitutional or funding agreement constraints
  - the prohibition on a company limited by guarantee not using the term “limited” in its name paying remuneration.
- If the board does formally consider payment, conflict of interest must be managed in the decision-making process.

ICDA's Board Payment Wizard can help organisations to navigate some of the issues raised in the research, and offers supportive information at each stage of decision making. The Board Payment Wizard leads you through a series of questions and answers. It explores the practical, financial, reputational and ethical dimensions of the question of whether board members should be paid. It can be found here:

<https://communitydirectors.com.au/tools-resources/board-payment-wizard>

### Try the Board Payment Wizard

Explore the practical, financial and ethical dimensions of the question of whether board members should be paid.

Try the interactive tool

