

# TOP 10

## Ten questions every board director needs to ask about the board's director payment policy

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, your organisation might be considering paying its board directors, to recognise the work they do and the responsibility they carry, and to make it easier for you 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.

These 10 questions are designed to help your board to explore the practical, financial and ethical dimensions of a board payment policy. They assume that your organisation does not currently pay its board directors.

To delve even more deeply, you can use ICDA's Board Payment Wizard, which will help your board to consider these issues (and more) in more depth, and direct you to further resources.

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



## 1. Legal and regulatory issues

### Is your organisation allowed to pay its directors?

There are at least two pieces of regulation you need to refer to here. First, check your constitution. If it specifically rules out payments to directors, that's that. Your only avenue if you want to change the situation to change the constitution, which requires a vote by the members. In Victoria, the model rules make no mention of director payments. In NSW, the model constitution says an organisation "must not conduct its affairs so as to provide a pecuniary gain for any of its members", but the Act specifies that this doesn't include remuneration.

If you're a charity or not-for-profit regulated by the Australian Charities and Not-for-profits Commission's Governance Standards, then, broadly speaking, you are allowed to pay your directors (if your constitution allows it), providing you don't make payments that are unreasonable, unauthorised or unjustifiable.

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## 2. Finances

### Can your organisation afford to pay directors, or could you raise extra funds for this purpose?

If you have the capacity to pay, then you have options, which is great. But by itself, being able to afford to pay isn't a good enough reason to pay your directors. Before you start writing cheques, work through the non-financial implications of your director payment policy.



## 3. Board composition and diversity

### Do you struggle to recruit and retain high-quality board directors?

It's likely that paying your board directors would attract new people to your board, and that's one good reason to consider providing payment. However, it's not that simple. Not everybody is motivated by money. Some people have enough money to get by, and would rather have more time. If you struggle to recruit and retain directors, why is that? Does your group have a fine reputation, or is it riven by factionalism and plagued by disorganisation? Is it known for its good work, or does it putter along without making much of a difference? Are you based in a small town where everybody is busy because they're on three committees plus the fire service and the SES? There are some problems that money can't solve.

## 4. Board composition and diversity

### Do you have people from diverse backgrounds on your board?

What does “diversity” mean to your organisation? Does it take into account gender, parental status, socio-economic status, ability, neurodiversity, age, religion, sexuality, cultural background, consumer status? Diversity shouldn’t be a box-ticking exercise, but it’s interesting to look at yourself through each of those lenses and to be reminded that you are not neutral. It’s also a good idea to consider whether your board is diverse enough to generate really robust, representative, insightful discussions on important issues. If not, consider whether paying board members might help to attract the kind of new perspectives your board lacks.



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## 5. Board composition and diversity

### Do you have consumers on your board? That is, people who are part of the group that your organisation serves, such as homeless people, artists, refugees, sportspeople, people with disability or people who’ve experienced domestic violence, for example?

If you do, make sure you specifically seek out their views on the question of paying board members – or perhaps you are one of those board directors. Do you feel that the impact of being paid or unpaid as a board member is any different for you than for others on the board? What policies would make it easier for you to maintain your ongoing contribution to the board? What would attract other consumers? Reimbursement of expenses? An honorarium? No change?

If you don’t, have you tried to attract consumers and found that you couldn’t? If that’s the case, then it could be well worth introducing a board member payment policy. If you haven’t tried, then a payment policy might be only one tool in your toolbox. Do you involve consumers in your strategy-making and decision-making in other ways?

## 6. Board composition and diversity

### Do you have difficulty attracting people with specific skills to your board?

Directors' responsibilities continue to increase and become more complex, especially in the not-for-profit sector. There is one school of thought that says the only way to ensure proper governance is to invest in skilled individuals who are committed to the industry you serve, and that means paying directors.

There is another school of thought that says paying board members is one way of attracting those people to your organisation, but it's not the only way. There are generous, committed, highly skilled people around who still want to give up their time to help make the world a better, kinder place. And there's another twist: if you do choose to pay your board members, is attracting people with specific expensive skills the most compelling reason for doing so? What about equity and board diversity?

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## 7. Fairness

### What would you say to someone who asked, "Why should board directors be paid and not the organisation's other volunteers?"

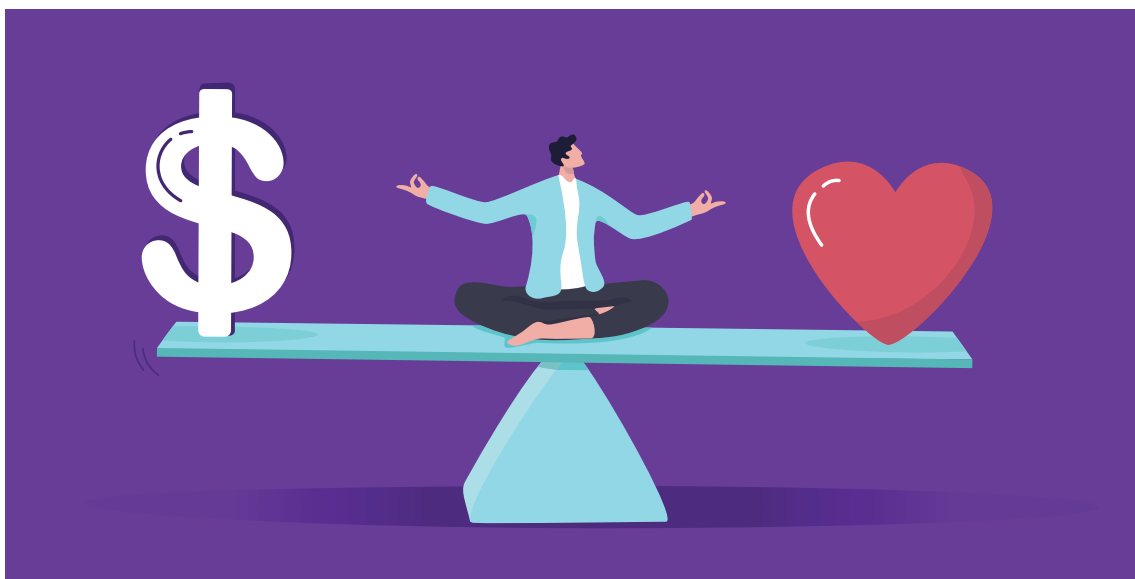
That's an excellent question, and there are strong arguments both ways but no clear answers. Only your organisation can decide what is right for you.

The main reason is market value. Board directors tend to bring specialist skills and experience to the board, whereas volunteers tend to occupy less skilled roles. (There are many, many exceptions, of course, but you get the gist.) The specialist skills are harder to get without offering payment.

The main reason not to pay board directors without also paying other volunteers is fairness. Board directors and general volunteers all donate their time. It's not fair to pay some and not others, the argument goes. Everyone's time is valuable.

A related argument is the history argument. Not-for-profits are historically run by volunteer boards. This is a valuable legacy that shouldn't be altered, some say.

Consider what's appropriate for your organisation.



## 8. Director accountability and performance

### Does your board find it difficult to hold directors accountable for reading meeting papers and completing assigned tasks?

It's tempting to think that if you pay your board directors, all your existing board-related woes will disappear overnight. Suddenly everyone will read the board papers a week before the meeting, attendance at meetings will shoot up to 100%, and directors will throw themselves into fundraising like never before.

No. Paying your existing board directors is unlikely to increase the quality of their performance. Building a culture where most people do what's expected of them most of the time without being reminded takes careful recruitment, sound induction, well-worn policies and procedures, and carrots and sticks. How is your organisation performing in those areas? However, payment does tend to be effective in increasing the size of the pool of suitable applicants for new board positions.

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## 9. Expenses

### How many of the following expenses do your board directors incur - without reimbursement - as a result of being on the board and attending meetings: meals away from home, accommodation, taxis, public transport fares, fuel, tolls, car running costs, carers, childcare, takeaway meals for kids, foregone income?

And how evenly are those costs distributed? Do you have one or two directors who incur all of those costs, while the rest spend little or nothing? Do women bear more of the costs than men? Do people in the outer suburbs or outlying districts pay more than those who live within walking distance of your meeting venue? Do you have board directors who need to arrange wheelchair-accessible transport? Even if your board decides against paying directors a fee, you should consider a policy on reimbursing expenses or paying a stipend for expenses. It's only fair. The alternative? Locking out single parents who need to pay babysitters, or older people who can't drive and need to take taxis, or people with disability who have special access needs.



## 10. Public relations, reputation and transparency

**Would you expect to find broad support for paying board directors among your stakeholders – members, staff, volunteers, donors, funders, users, clients, the general public? And if you introduced such a policy, would you announce the change or keep it quiet?**

Dealing with public perceptions is likely to be the biggest challenge your organisation will face if it decides to pay board directors. Historically, charity and not-for-profit boards have worked for the good of the cause, with no expectation of payment. But the world has changed – people work longer hours and have less time to contribute, the retirement age has increased, and volunteer numbers have fallen to perilously low levels. You have an opportunity to translate that into good policy. Focus on consultation, communication and transparency in coming up with a board director remuneration policy that helps the organisation to remain sustainable and draws good people into the fold.

In general, it's a good idea for the governance of the organisation to be as transparent as is compatible with commercial considerations. So when it comes to announcing the change, being up front with members and donors shows that you're confident of the merit of your proposals and want them to be widely known. You can put your best spin on it and tell people why you think it's necessary.

### **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**

