



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





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# A message from CommBank

Across Australia, the work undertaken by those in the diverse Not-for-Profit Sector helps shape the communities where we all live. It's a Sector that forms the backbone of Australian society and plays a critical role in enhancing economic, social, cultural and environmental equality and wellbeing.

As part of our vision of 'Building a brighter future for all', we continue to develop programs and resources designed to support this vital Sector. From the Not-for-Profit Treasurers' Awards and Not-for-Profit Finance Week, through to our national team of trained and accredited Not-for-Profit sector bankers, we are re-imagining banking and how we work with all sectors of the Australian economy.

CommBank's long commitment to the Not-for-Profit Sector includes the ongoing support of the AICD NFP Governance and Performance Study, which underpins our belief in the importance and the power of research and data. It helps shape our conversations, guides our decision-making and plays a key role in our ability to identify and plan for emerging trends.

On behalf of CommBank and the specialist Not-for-Profit Sector banking team, we hope this year's study provides meaningful input for not-for-profits across the country and makes a small contribution in prompting conversations around the boardroom table and across your executive teams.

Warm Regards

**Julienne Price**

Head of Schools, Not-for-Profits and Women in Focus  
Commonwealth Bank of Australia



# A message from AICD

The AICD remains committed to assisting the NFP Sector's governance through a range of resources including the annual *Not-for-Profit Governance and Performance Study* (NFP Study).

Since 2010 the study has delved into many of the challenges that the sector has faced and explored the innovative ways that organisations have achieved great outcomes. As we heard at the 2022 Essential Director Update, "good governance is not an end in itself; good governance is an enabler to achieve your purpose". This year's study highlights the importance of the director in ensuring the quality of care being provided to those at risk and also the need for the measurement of outcomes for organisations. The challenges of workforce planning and a changing external environment have also added to a complex environment for directors reflected with the increasing time commitment.

We are proud to have produced the Not-for-Profit Governance Principles which is one of our most downloaded resources, and a 3rd edition is due to come out by 2024. We will continue to develop resources that assist NFP directors in their role.

Our NFP scholarship program continues to expand with 200 scholarships awarded in 2022 to leaders of small NFP's right across Australia.

**Mark Rigotti MAICD**

Managing Director and Chief Executive Officer,  
Australian Institute of Company Directors

Australian Institute of  
**Company Directors**

# Executive summary

The NFP Sector has continued to change rapidly, with the COVID-19 pandemic plus various royal commissions having major implications for the governance of organisations across this very diverse sector. Community expectations continue to increase as more light is shone on governance failings and consensus that change needs to occur. The role of the director therefore continues to evolve and we are seeing directors spending more time on their role and it is likely that this will continue to increase.

With these increased expectations also comes a question of whether our traditional governance model enables directors to really understand the quality of care provided or the effectiveness of their organisation. Will directors need to get their hands slightly “dirty” or have their “noses further in” to the operations of their organisation?

## THIS YEAR’S NFP STUDY HAS HIGHLIGHTED FIVE KEY FINDINGS:

### 1. Measuring organisational effectiveness

The top three methods organisations use to measure effectiveness are:

1. CEO reports
2. Business metrics collected through management systems
3. Stakeholder surveys

Directors continue to rate the effectiveness of their organisation and executive team highly. This optimism may be overstated as many appear not to be using evidence-based measures.

### 2. The changing nature of governance

Directors continue to spend increasing time on their role. Various royal commissions have highlighted the need for boards to better understand the level of care being provided and this presents a challenge to the traditional concept of “noses in, fingers out” role of the director. The reliance on ‘care committees’ as the primary source of information to ensure appropriate care is being provided, appears relatively low even in aged care and social service providers.

### 3. Financial outlook

Profitability fell for the sector with social services and health and residential aged care providers most affected. Despite this negative finding the future outlook was generally positive with almost three quarters expecting a stronger financial position in three years.

### 4. Mergers remain on hold

Despite many of the challenges faced by NFP organisations, merger activity remains low, as do discussions about merging. Many commentators had expected to see the pace of merger activity post-pandemic to increase, however this appears not to have occurred.

### 5. Priorities, opportunities and uncertainties

Changing external factors and stakeholder expectations of NFPs, bring with it challenges and opportunities. The macro environment has produced micro-level impacts, including workforce shortages, effects of climate change and broader ESG considerations. NFPs are increasingly being challenged to look with a wider lens and understand their role in, and impact on, society.

## OTHER KEY FINDINGS

**Director time commitment** – Just over half of NFP directors spend between one and five days on director duties per month. While 43 per cent of respondents consider they are dedicating the same amount as last year, 44 per cent believe they are contributing more time this year.

**Director remuneration** – The percentage of respondents being remunerated has w to grow, with 22 per cent now stated they are paid. However, for most NFP organisations, board members are unpaid or only have their expenses covered. A similar proportion have not discussed the option of paying board members.

Across the NFP sector, the average payment of individual board members is \$22,581 with the highest average payment in the culture, arts, recreation and sports organisations (\$27,389), followed by education and research (\$24,399).

**Organisational priorities for the next 12 months** – The organisational priorities most frequently rated within the top three for the next 12 months are:

- Diversifying income sources
- Workforce planning
- Responding to changes in the operating environment

**Changes expected within the next 12 months** – NFP organisations are most commonly anticipating changes to volume of service provided (18%), client numbers (17%) and capital investment (16%). A range of issues regarding workforce are also expected to change, including training and development, staff numbers (FTE) and staff pay and benefits.

**Board priorities** – The board actions considered a priority most often were:

- Regular review to track progress against goals or targets of the organisation
- Improve board composition
- Develop a new strategic plan
- Improve the use of digital technology

**Reconciliation Action Plans (RAP)** – Just over half (51%) of respondents do not have a Reconciliation Action Plan. The remaining respondents (48%) either have an existing RAP or have a RAP in development.

**Climate change governance** – Almost half (45%) of organisations reported governance of climate change never appears on their board's agenda. Sixty per cent though, somewhat, or strongly agree their board has the knowledge and experience to adequately address climate governance issues facing the organisation. Sixty-one per cent agree that their board should increase attention to climate change governance.



HIGHLIGHT ONE:  
**Measuring  
effectiveness**

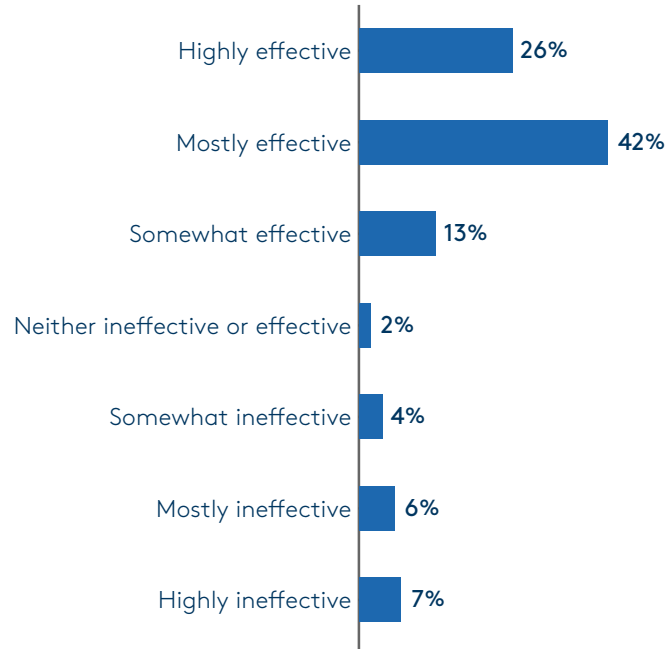




Organisations in the NFP sector may have challenges in measuring their progress towards achieving their purpose.

The complexity of the issues they are dealing with can mean that appropriate measures may be challenging to implement. This year, respondents report confidence towards both organisation effectiveness and the role of their executive team and risks frameworks. Interestingly, CEO reports are most commonly used to measure such effectiveness as opposed to other available reporting methods.

### Effectiveness in achieving organisation's purpose



Base = 1,837

Sixty-eight per cent of respondents believe their organisation is mostly, or highly effective in achieving its purpose.

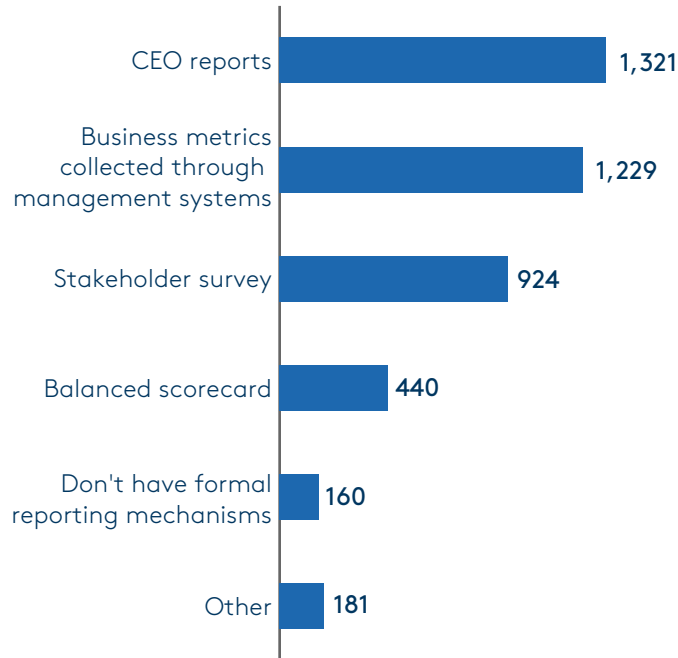
Seventeen per cent believe their organisation is ineffective to some extent.

“

At the end of each board meeting, we reflect on how we went fulfilling the values of the organisation. That is one way that helps us keep on track. What do our decisions mean for clients? What does it mean for the people we're looking after?

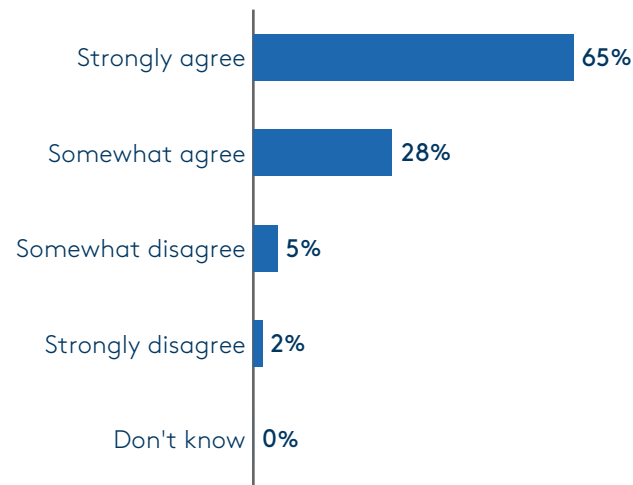
– NFP study respondent

### Methods for measuring effectiveness



Base = 2,347

### Executive team effectiveness



Base = 1,722

Ninety-three per cent of respondents agree overall, they are confident their executive leadership is making good decisions.

The top three methods organisations use to measure effectiveness are 'CEO reports', 'business metrics collected through management systems' and 'stakeholder surveys'.

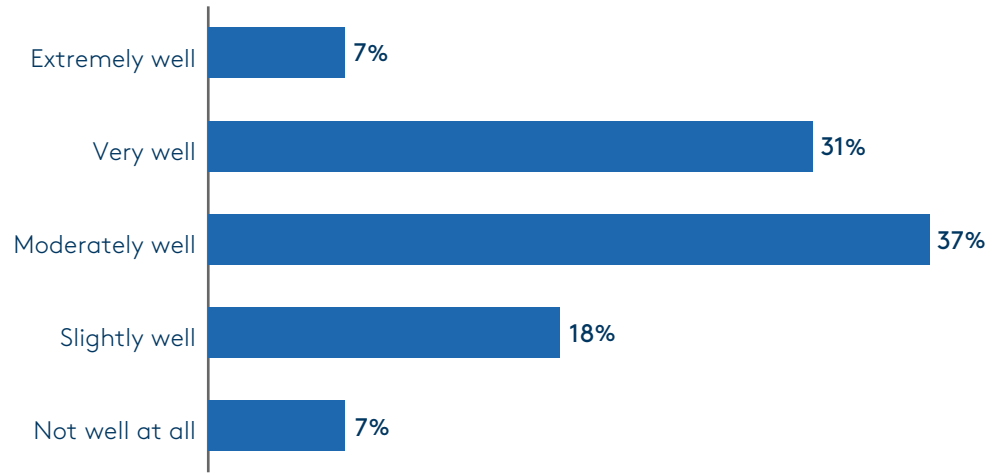
“

I think it's really important that there's a clear differentiation between the board's role and management's role. However, the close relationship, trust and collaboration are also really key to having confidence that the board is fulfilling its obligation.

– NFP study respondent



### Effectiveness of risk framework in responding to COVID-19



Base = 1,632

Three-quarters (75%) of respondents considered their risk framework worked moderately to extremely well in responding to COVID-19.

### QUESTIONS FOR CONSIDERATION:

- Do we have an evidence-based approach for our effectiveness measurement?
- Do we have the appropriate KPI's for measuring success?
- Do we understand our purpose and strategy and are either changing?
- Do we measure the CEO appropriately?
- Do we use our risk framework for good decision making?
- When did we last update our risk framework?

HIGHLIGHT TWO:

# The changing nature of governance



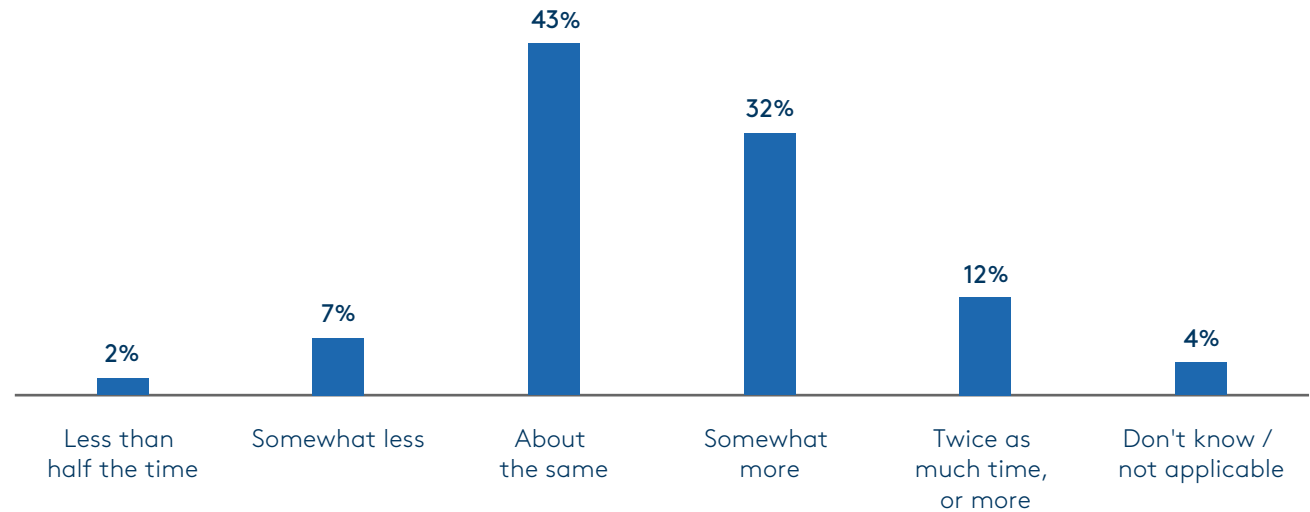


The Aged Care Royal Commission recommended the use of care governance committees which are designed to assist the board understand the level and appropriateness of care provided to clients.

Relatively few organisations were using “care committees” as their primary source regarding care. Of note, the vast majority of aged care and disability service providers reported relying on other information sources such as CEO/management reports as their primary source of information.

Respondents to the survey reflected on the extra time required in their role as NFP directors. The percentage of directors receiving remuneration continues to gather momentum and is the highest since the survey began more than a decade ago.

### Time spent on director role compared to last year

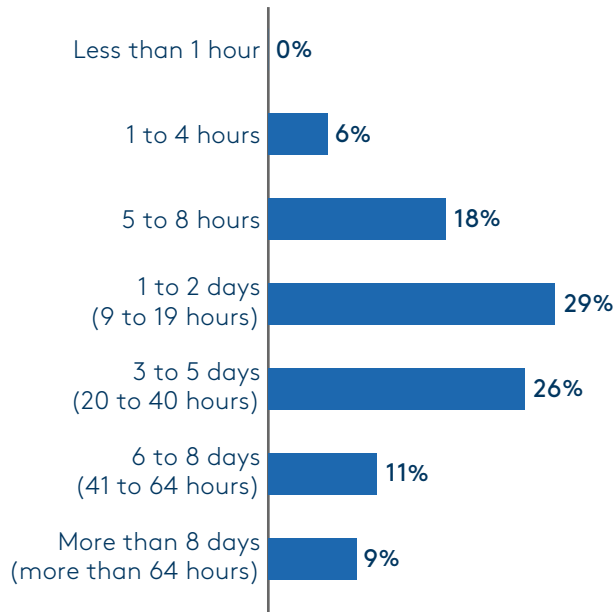


Three-quarters (75%) of respondents reported their time spent on work is about the same or somewhat more compared to last year.

Base = 1,364

Note: survey respondents were required to reflect on their 'main' NFP role when completing the survey.

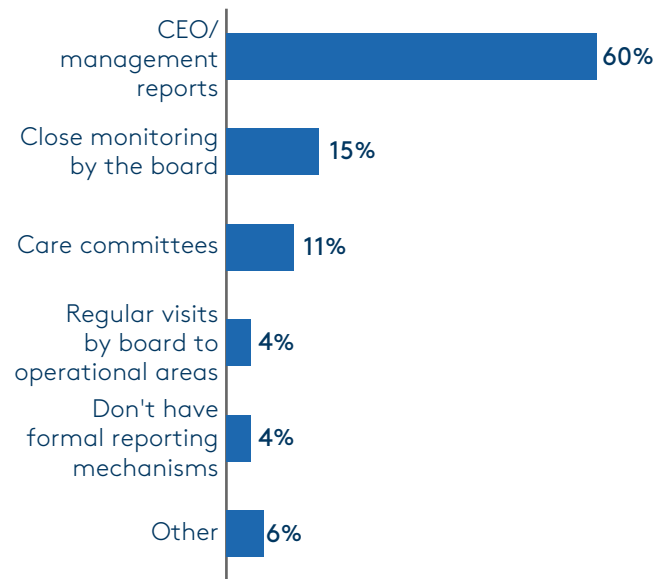
### Time spent on directorship duties per month



Base = 1,377

More than half (55%) of respondents are spending between one to five days per month on governance for their NFP. A further 20 per cent are spending more than six days per month.

### Ensuring appropriate care and support



Base = 968

Sixty per cent of organisations that provide care or support services reported their organisations rely on 'CEO and management reports' to ensure this is provided.

“

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

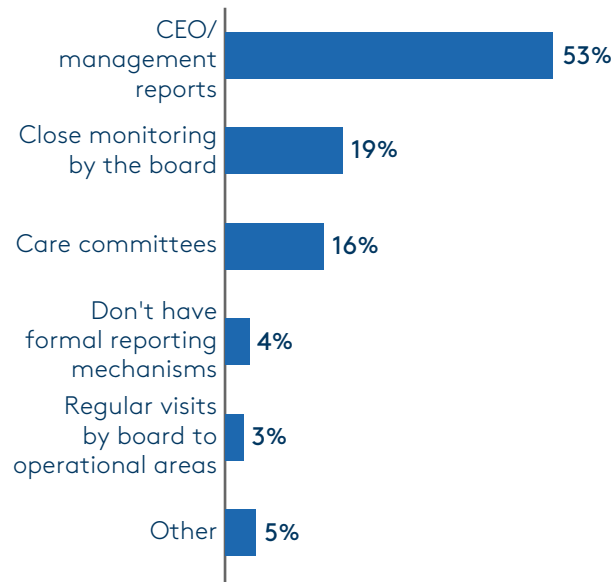
A breakdown of how respondents ensure care for health and residential aged care<sup>1</sup> and for social services<sup>2</sup> was conducted.

The majority of boards (53% to 65%) of both sub-sectors were heavily reliant on CEO/management reports to ensure appropriate care and support is provided to recipients.

Only 16 per cent of health and residential aged care, and 12 per cent of social services organisations reported using care committees as their primary information source to ensure the appropriateness of care and support for recipients.

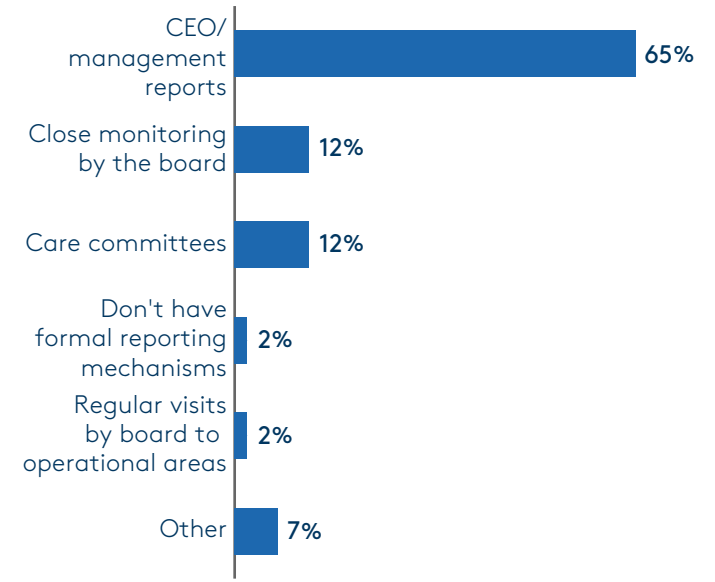
Larger organisations are more likely to use care committees as the primary source to ensure the appropriateness of care and support services than smaller organisations.

### Health and residential aged care



Base = 264

### Social services



Base = 391

“

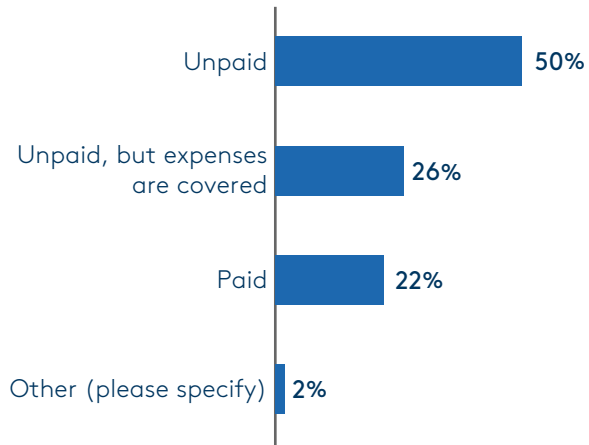
We've been able to use our involvement in the Royal Commission to reflect on our own performance and to make internal changes based on what we find. We've done a deep dive in preparation for the Royal Commission and that exposed weaknesses and strengths, and we've been able to act on those to improve service delivery.

– NFP study respondent

1. Includes hospitals, rehabilitation, nursing homes, mental health treatment, crisis intervention, public health and wellness education, health treatment, primarily outpatient, rehabilitative medical services and emergency services.

2. Includes in-home and community aged care, all disability services, emergency relief, child and youth care and welfare, homelessness and income support.

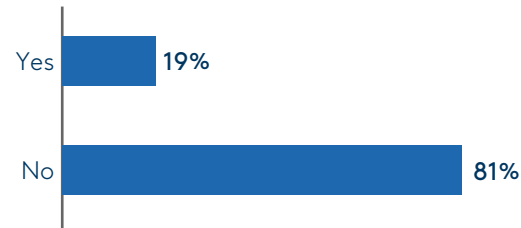
### Payment of NFP directors



Base = 1,723

Just over three-quarters (76%) of board members report being unpaid, or only have expenses covered. Twenty-two per cent were remunerated, which has steadily increased from 14 per cent five years ago.

### Discussion about paying board members



Base = 1,298

Eighty-one per cent of organisations have not discussed the option of paying board members.

“

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

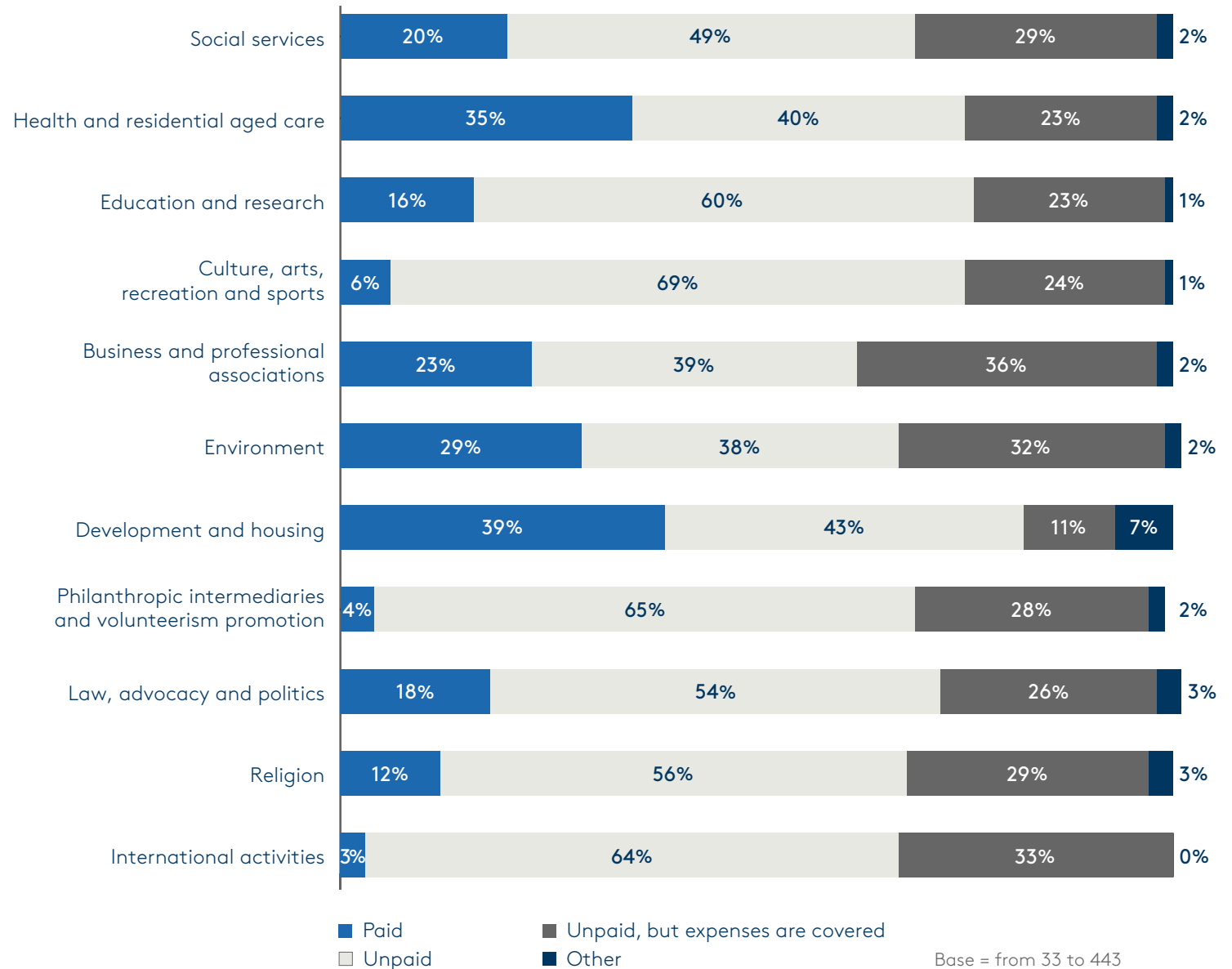


### Payment of board members (by sub-sector)

The top three sub-sectors featuring the highest percentage of organisations paying their board members are development and housing, health and residential aged care and environment.

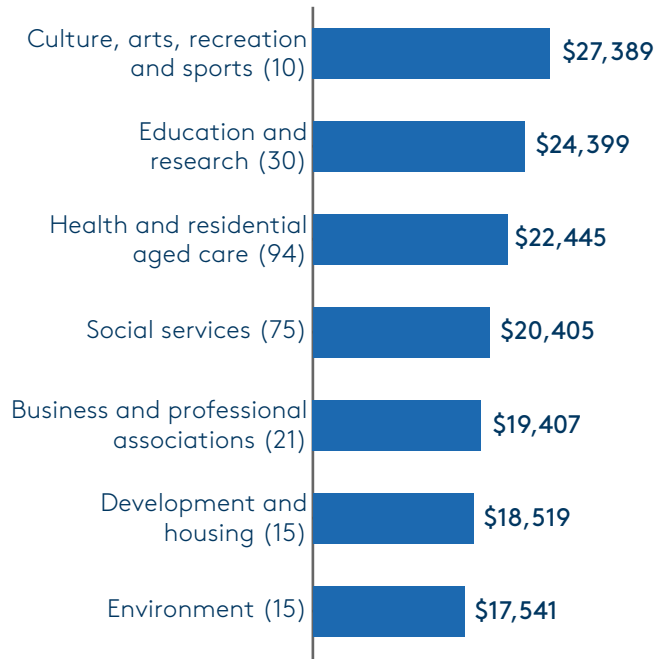
“ Depending on the organisation, its size and complexity, there can be really high demands in terms of what a board member needs to be across. It’s really challenging just to have enough time to cover off all the duties.

– NFP study respondent



### Amount paid to board members (by sub-sector)

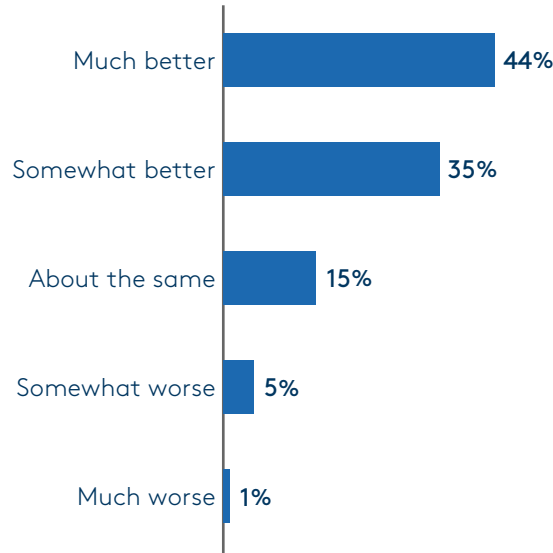
Of the organisations who pay their board members, the average salary across all NFP sub-sectors is \$22,581. In a breakdown by sub-sector, culture, arts, recreation and sports offer their board members the highest average salary with \$27,389, followed by education and research with an average salary of \$24,399.



Base = 260

Note: Some sub-sectors' figures are omitted from this graph due to insufficient responses to this question to be reliable.

### Governance compared to three years ago



Base = 1,615

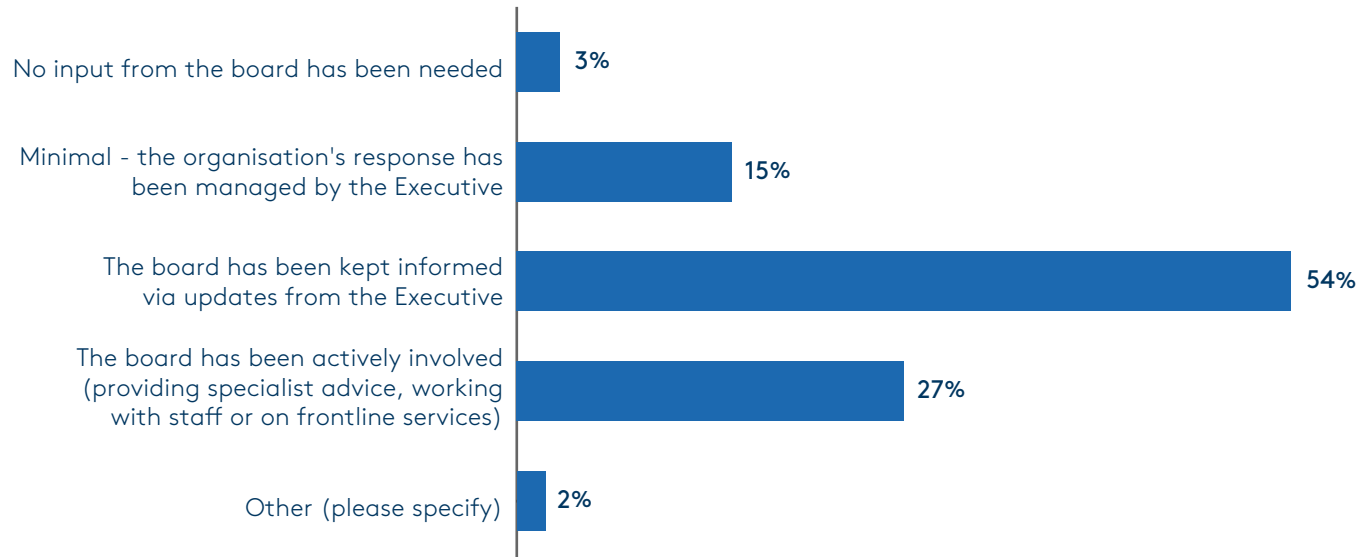
A sizeable proportion of respondents (79%) rate their governance as somewhat or much better than three years ago.

“

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

## Board response to COVID-19



Base = 1,642

“

The pandemic disruption caused huge workforce problems and associated costs. Staffing, attraction and retention is very difficult. We've had to close some of our more isolated rural facilities because we just cannot get staff.

– NFP study respondent

Most boards (69%) have been kept informed about their organisation's COVID-19 response via the executive, or the response was managed almost entirely by the executive.

Just over a quarter (27%) of organisations reported their boards have been actively involved in the ongoing response to COVID-19.

### QUESTIONS FOR CONSIDERATION:

- How do we get insights from our clients?
- Do we need a committee to advise the board on care?
- Do our directors ask the right questions of management and do they understand the answers?
- Do we have the right skills matrix?
- Do we need to reconsider remuneration?
- Are we expecting too much of our directors?



HIGHLIGHT THREE:

# Financial outlook

This year has seen an increase of organisations reporting a loss (24%), representing an increase of nine per cent from last year. Despite this, most NFPs had a positive outlook with the majority (73%) forecasting a slightly or much stronger financial position in three years.

Most of the respondents forecasting a weaker financial position thought it would only be slightly weaker. Sub-sectors that faced heavier losses included health and residential aged care and social services.

### Profit/loss/break even



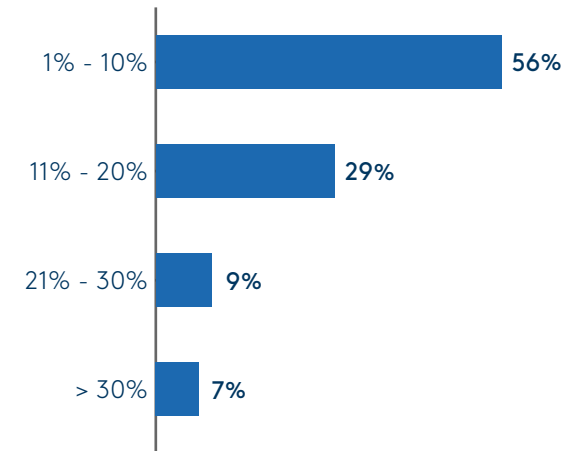
Base = 1,655

Three-quarters (75%) of respondents reported their organisation made a profit or broke even in the 2021/22 financial year.

A notable proportion though (24%) made a loss (9% more than last year).

### Percentage profit

Forty-five per cent of organisations reported a profit margin of greater than ten per cent.



Base = 794

Eighty-five per cent of NFP organisations' percentage profit ranged between one per cent and 20 per cent.

Sixteen per cent made more than 21 per cent profit.

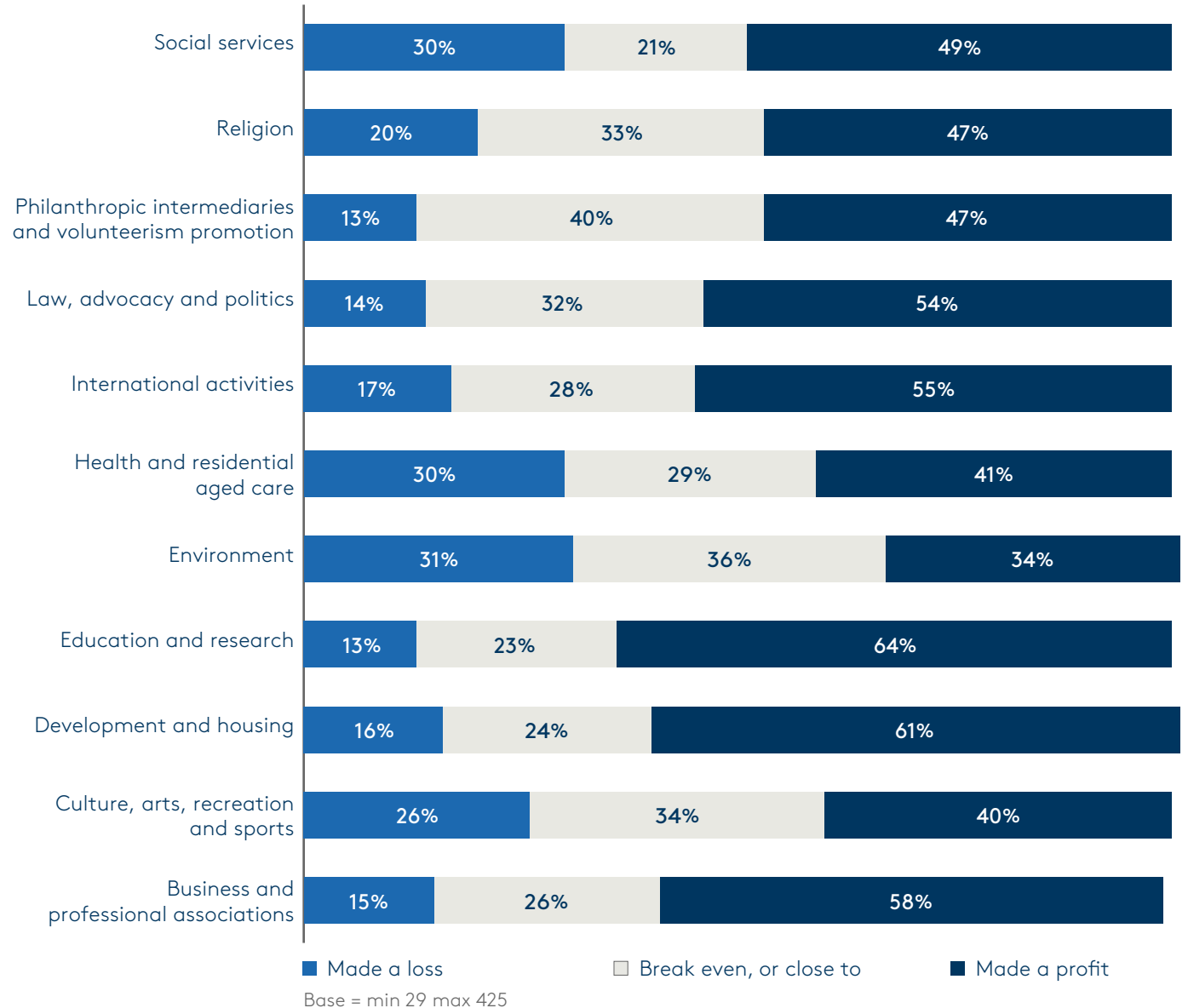
(The percentage profit is total profit divided by total revenue).

### Profitability by sub-sector

Social services, health and residential aged care and environment organisations were the most likely to make a loss. This has continued a trend in the health and residential aged care sub-sector over recent years.

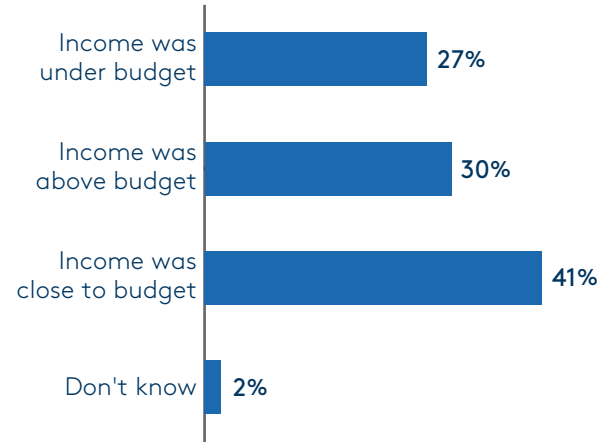
“  
The aged care financing model is broken. It’s very hard to get sufficient funding for rural towns. Funding indexation has just not kept pace.

– NFP study respondent





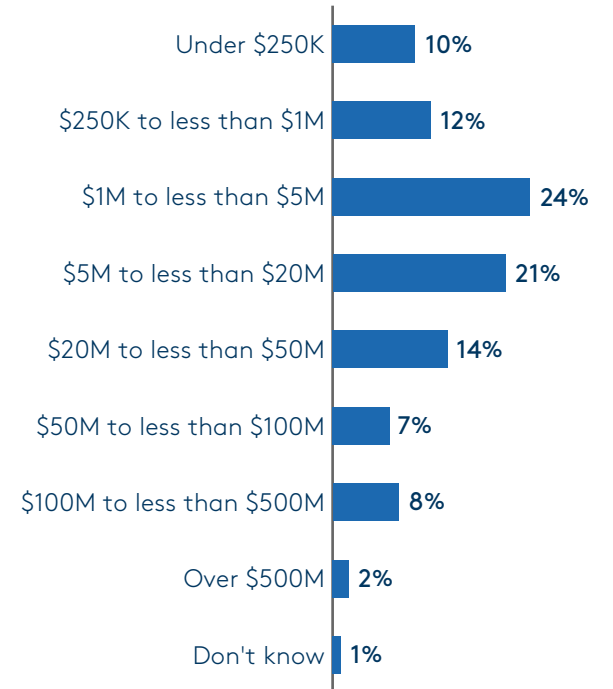
### Income/budget comparison



Base = 1,665

Almost a third of respondents (27%) reported their 2021/22 income came in under budget, while the majority (71%) of the organisations were above or close to budget.

### Total income for the 2021/22 financial year

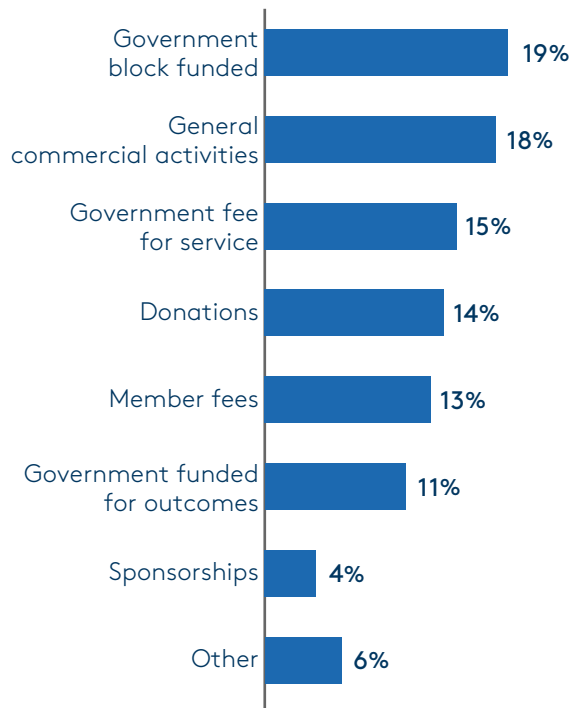


Base = 1,666

Almost half of the respondents reported an annual income of between \$1 million to less than \$20 million (45%). Just over a fifth (22%) earn under \$1 million and 32 per cent earn more than \$20 million per annum.

### Income sources

The average reported percentage of NFPs' funding by funding source showed that government block funding and general commercial activities were the top two sources of income for organisations, which were comparable with previous years.



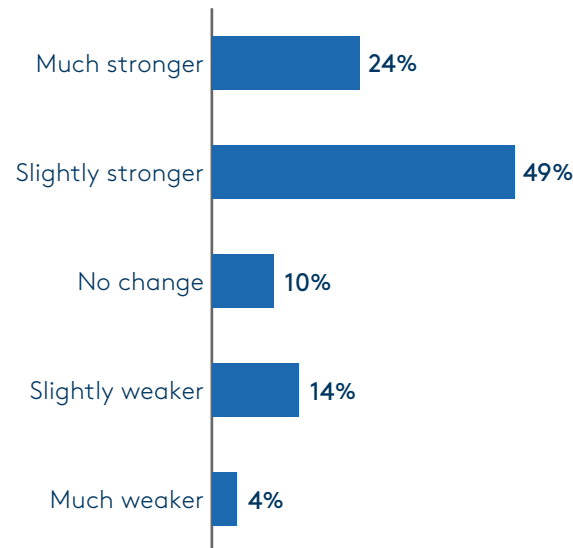
Base = 1,682

“

Because of funding gaps, we need to supplement with fundraising so that we can do the additional wrap around services important for community housing.

– NFP study respondent

### Financial position (three-year forecast)



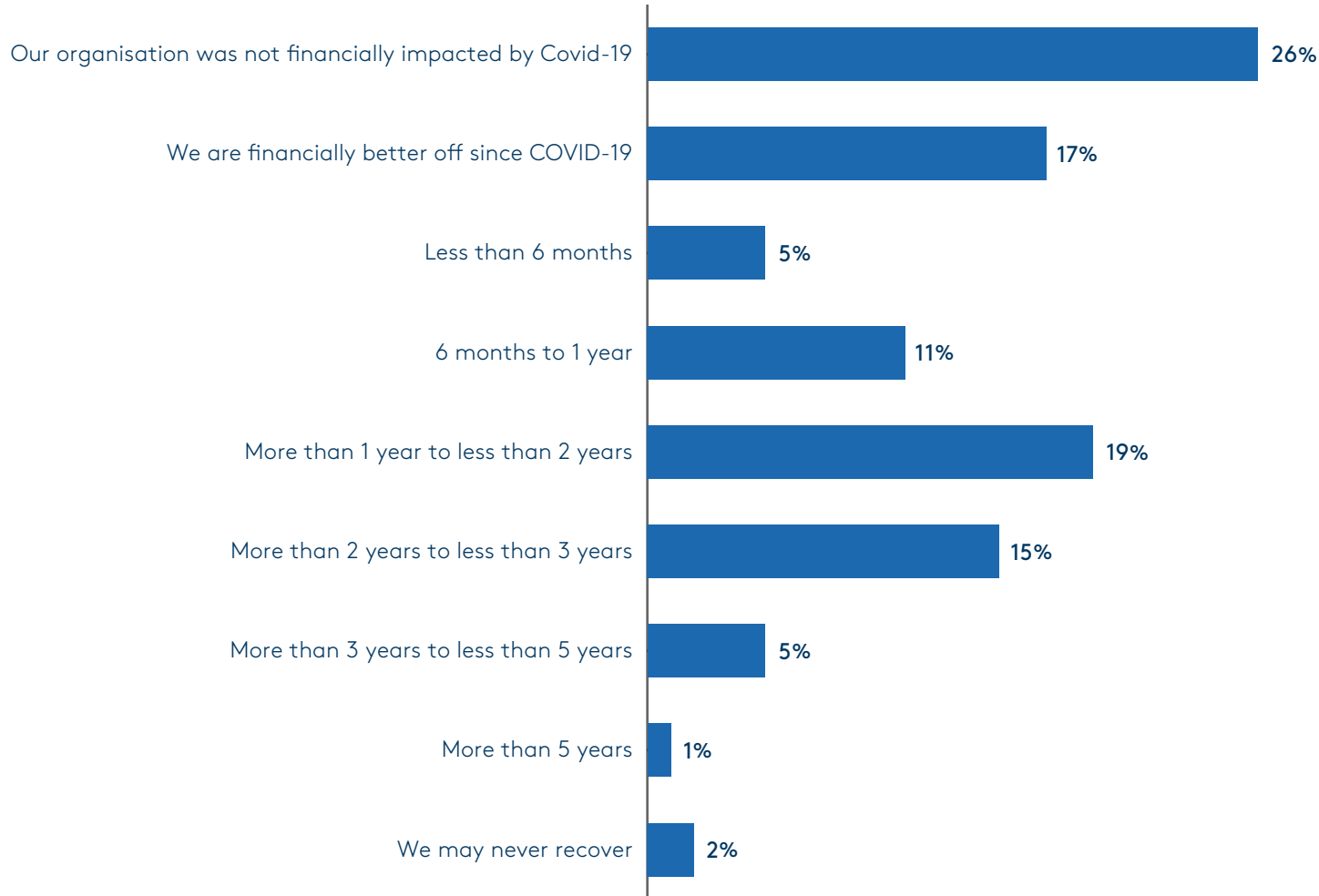
Base = 1,647

The majority of NFP organisations (73%) had a positive outlook and were forecasting a slightly or much stronger financial position in three years.

Most of those forecasting a weaker financial position thought it would only be slightly weaker (14%).



### Financial recovery post-COVID



Base = 1,648

Over a quarter (26%) of respondents reported their organisations were not financially impacted by COVID-19.

Given the current COVID situation, half of respondents (50%) expected profits to return to pre-COVID levels from between six months to five years' time.

A very small proportion of organisations estimate they may not financially recover from COVID for more than five years, if at all (3%).

#### QUESTIONS FOR CONSIDERATION:

- Do we have a strong enough business model to be financially sustainable?
- What level of profitability should we aim for?
- Is our reserves policy up to date or relevant?
- Do we need to reconsider our sources of funding?

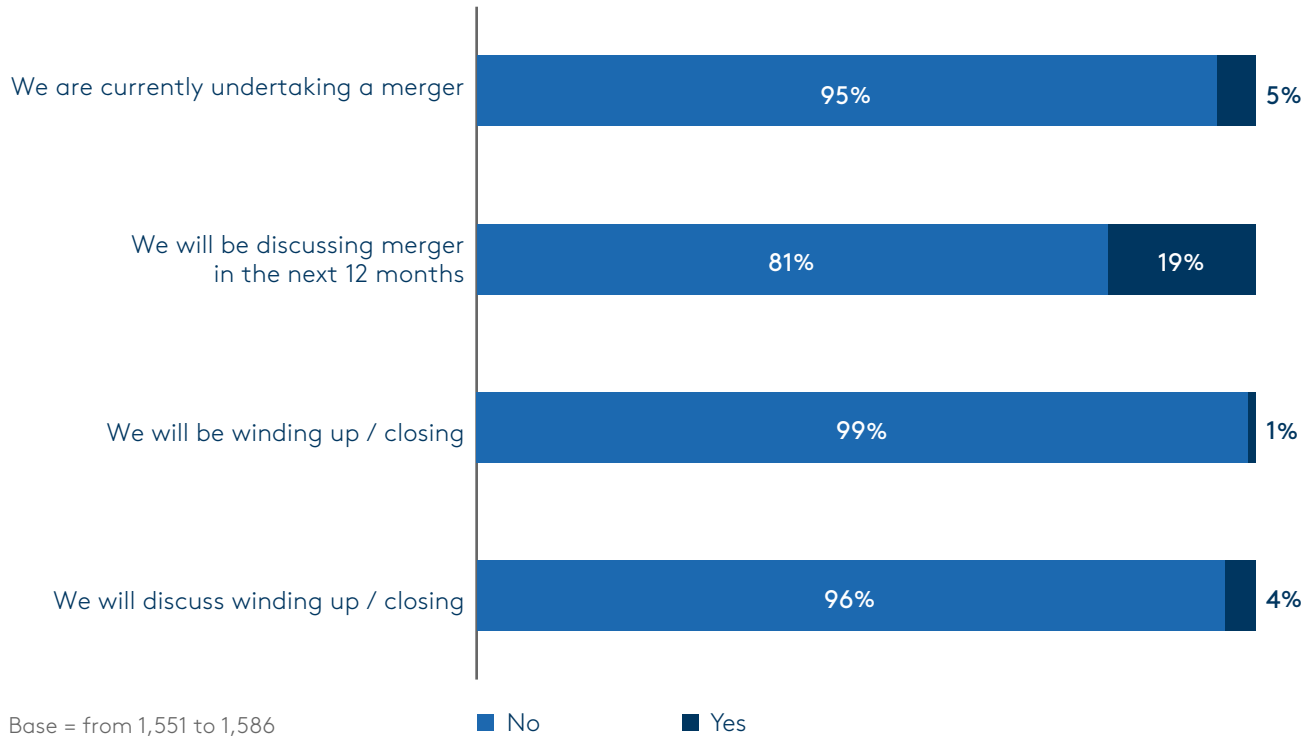
HIGHLIGHT FOUR:

# Mergers still on hold



Many observers of the NFP Sector had thought that merger activity would begin ramping up in the 2021-2022 financial year. However, the results of this year's study found little sign of this materialising. Mergers remain low, as do board conversations about potential mergers.

### Mergers and winding up



A very small proportion of organisations report they will be winding up (1%) or discussing winding up (4%) within the next 12 months.

Almost a fifth of NFP organisations (19%) are discussing a merger, while only five per cent are currently undertaking a merger.

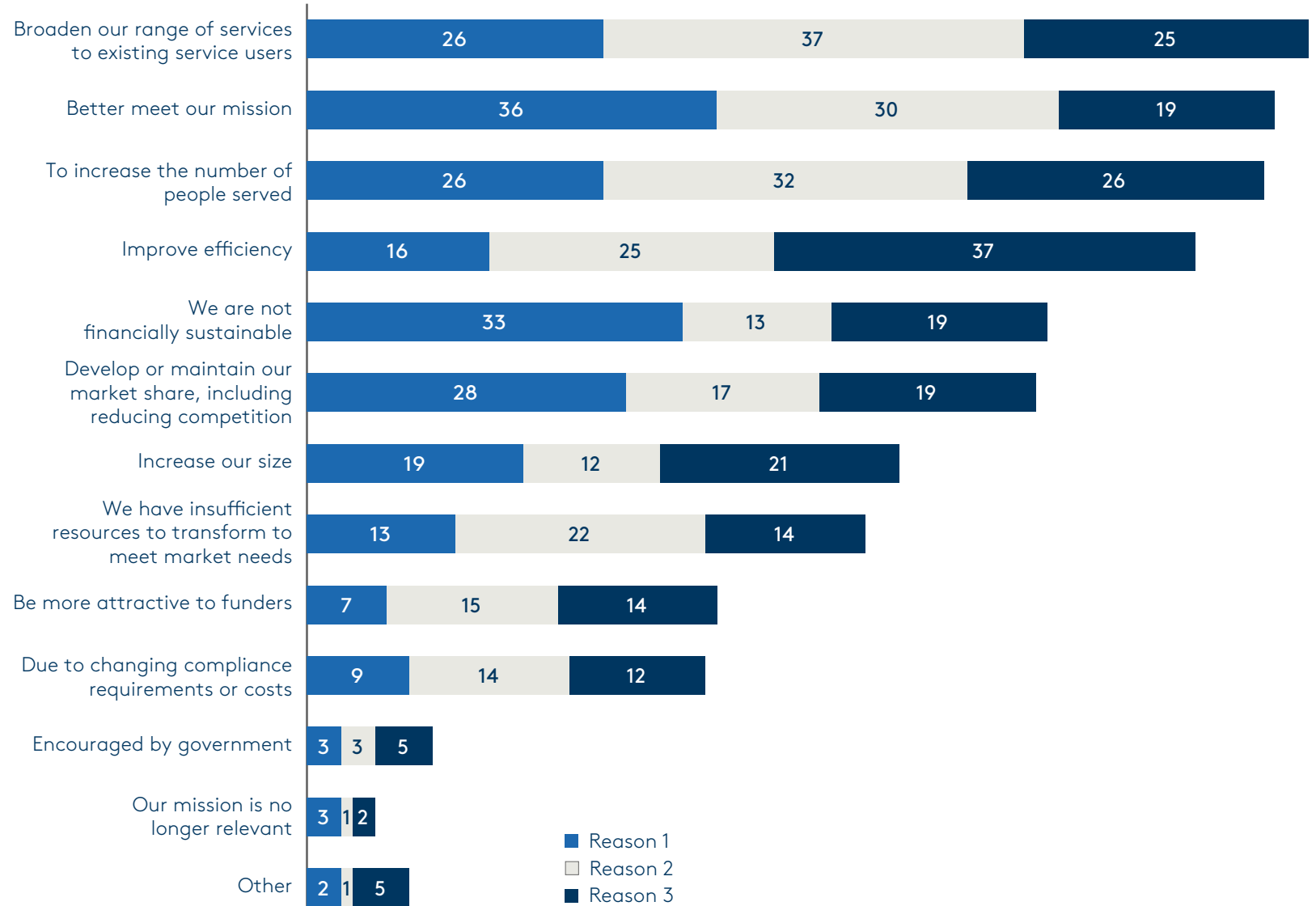
“

One of the consequences of proposed changes in compliance requirements is that the question becomes ‘Are we sustainable as we are or do we need to merge?’ Organisations that are not part of a broader group, and the only aged care provider in regional or remote areas, might fold because they're not sustainable. Who's going to provide those services in that area if it's not a profitable business?

– NFP study respondent

### Top three reasons for considering a merger or winding up

For organisations undertaking or considering mergers or winding up, the top three reasons that featured most frequently were to 'broaden the range of services', 'better meet our mission' and 'increase the number of people served'.

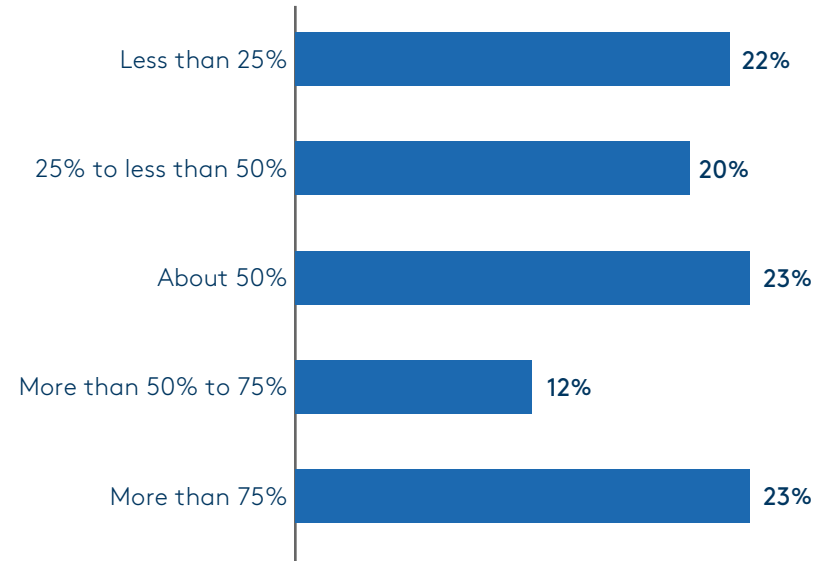


■ Reason 1  
■ Reason 2  
■ Reason 3

Base = from 6 to 88



### Merger discussions materialising in the next two years



Base = 367

Of those NFP organisations who reported merging or discussing merging within the next two years, 42 per cent report the chance of merger is less than 50 per cent, and 35 per cent report being more than 50 per cent sure of a merger.

### QUESTIONS FOR CONSIDERATION:

- Are we sustainable or should we be looking at merging?
- What type of organisation would we consider merging with?
- Should we be looking at acquiring another organisation?
- How skilled is the board to be considering an acquisition?
- At what point would we consider winding up the organisation?
- Who could our organisation collaborate with, to achieve better outcomes for our clients?



HIGHLIGHT FIVE:

# Priorities, opportunities and uncertainties



Workforce planning and staff shortage issues are heavily impacting the sector and the need for stable and diversified sources of income are major priorities for almost all NFPs.

Organisations recognise the importance of their board's composition and view improving board skills, diversity and succession planning as a priority.

While climate change governance is being considered by some (61% suggesting their board should spend more time considering the issue), almost half of organisations report climate change governance does not currently appear on their board's agenda.

Just over half of respondents organisations (51%) do not currently have a Reconciliation Action Plan (RAP).

“

If you haven't got the right people around the table to be able to guide and drive the organisation's strategy and purpose, then you start to get a breakdown in the governance framework.

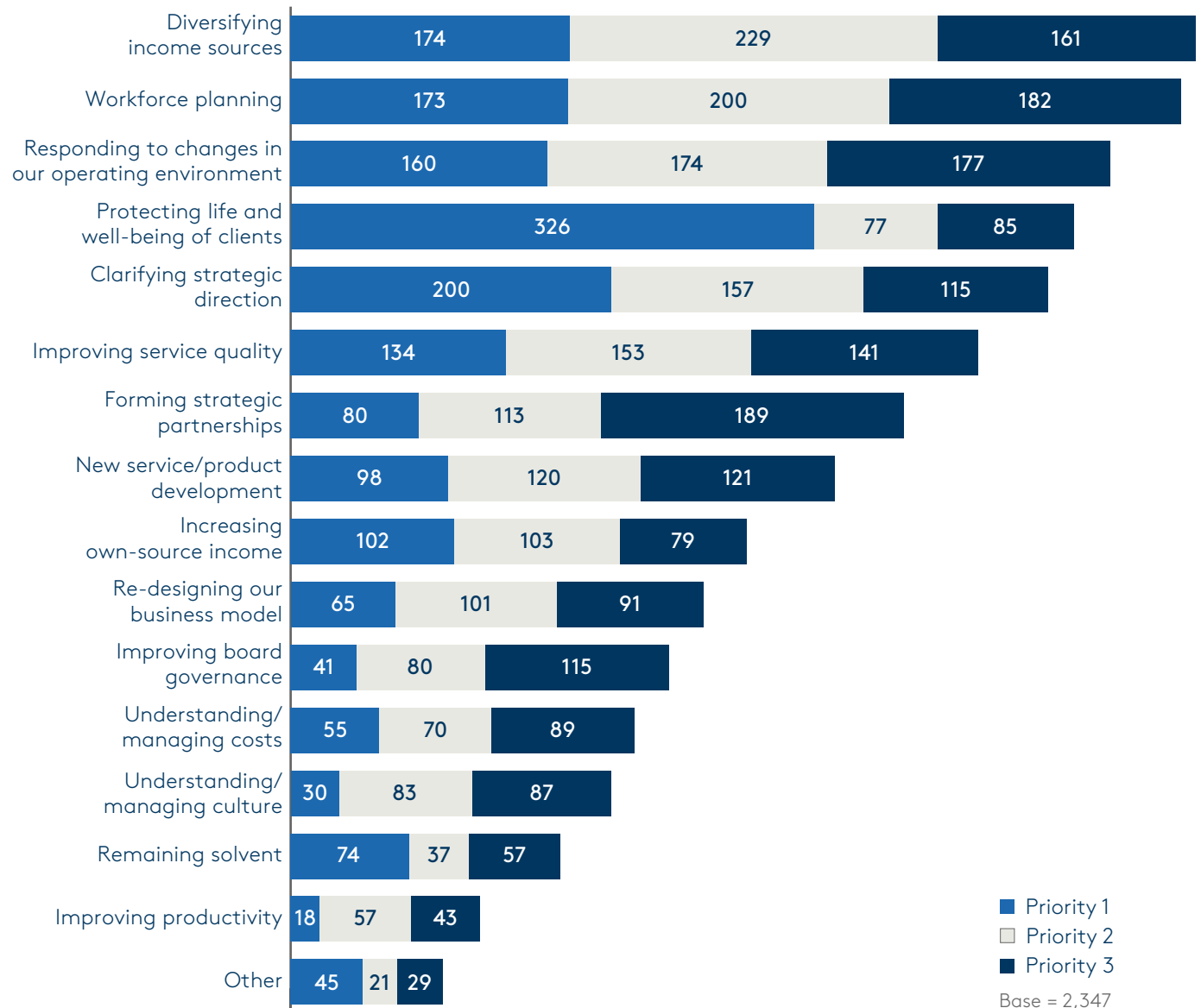
– NFP study respondent

### Top three priorities for organisations in the next 12 months

'Diversifying income sources', 'workforce planning' and 'responding to changes in operating environment', were most frequently included in respondents' top three priorities for the next twelve months. 'Understanding and managing culture', 'remaining solvent' and 'improving productivity' were considered priorities by fewer (NFP) directors.

“Commercial pressure - if people see our service as a good one, they'll come to our organisation. Commercial pressure is a real pressure to make us work to community standards.

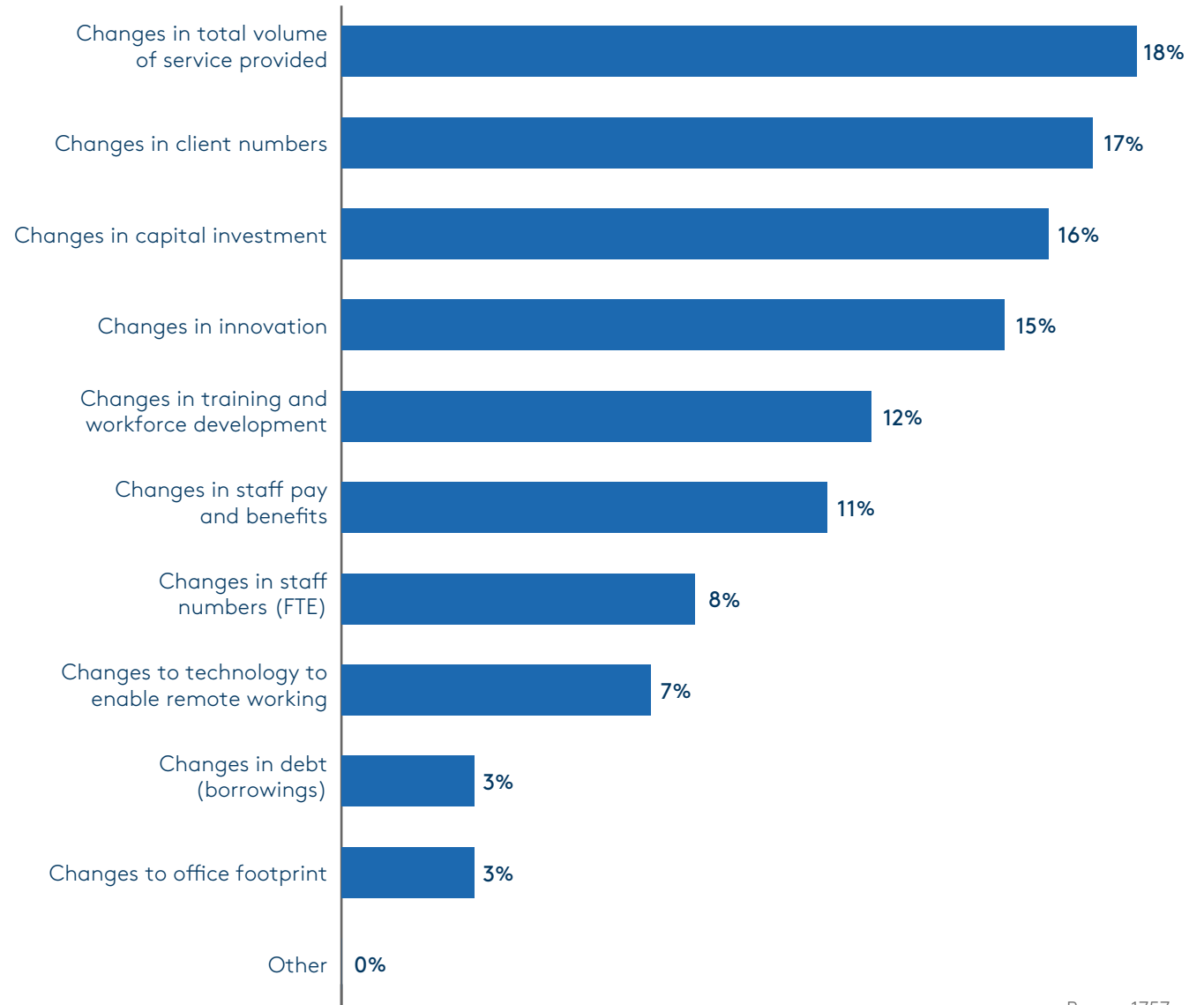
- NFP study respondent





### Changes expected in the next 12 months

Substantial changes are expected across NFPs for total volume of service provided (18%), client numbers (17%) and capital investment (16%). A range of issues regarding workforce are also expected to change including training and development, staff numbers (FTE) and staff pay and benefits.



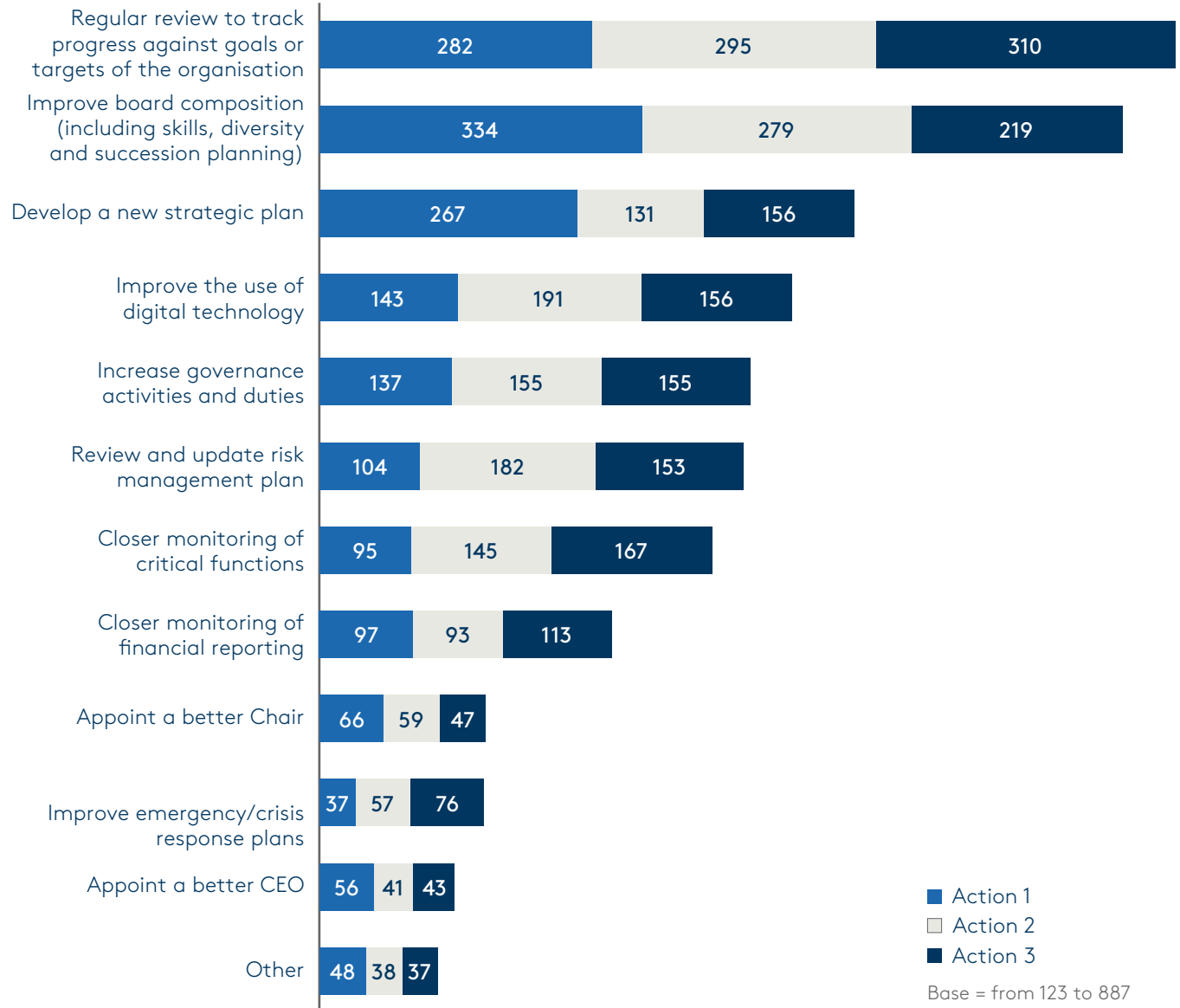
Base = 1757

### Top three actions for the board

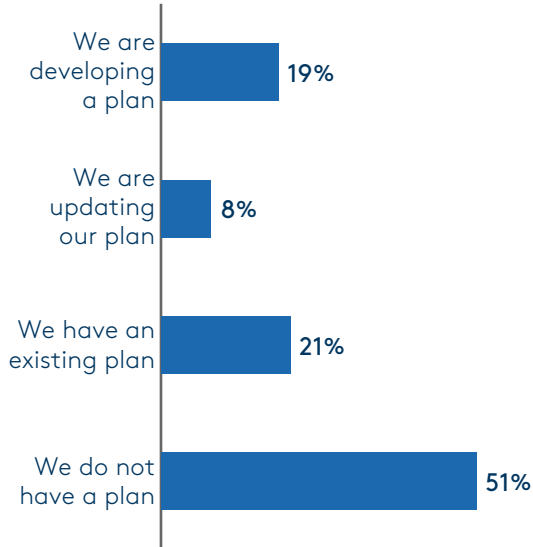
The top actions for the board that featured most frequently in respondents' answers were 'regular review to track progress against goals or targets of the organisation', 'improve board composition', 'develop a new strategic plan' and 'improve the use of digital technology'.

“  
We've got to be way smarter than, probably, every other high risk industry in how we elicit feedback. We need real, true feedback from consumers, because we need objective data.

– NFP study respondent



### Status of Reconciliation Action Plan

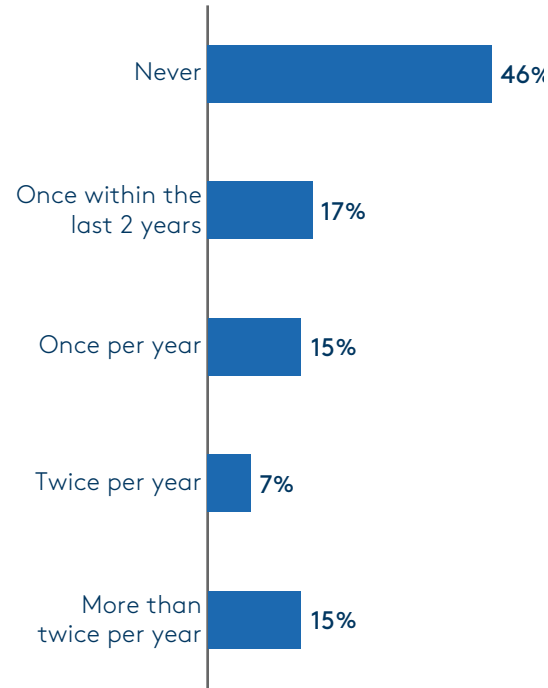


Base = 1,537

Over half (51%) of respondents do not have a Reconciliation Action Plan.

The remaining respondents either have an existing plan or have a plan in development.

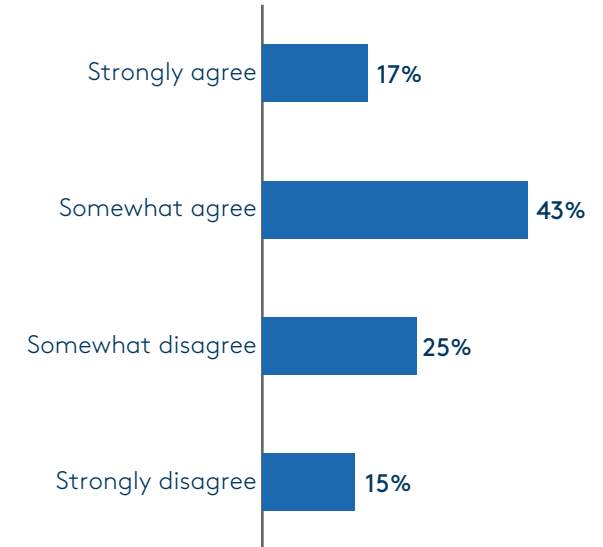
### Board discussions on climate change governance



Base = 1,548

Almost half (46%) of organisations reported governance of climate change never appears on their board's agenda.

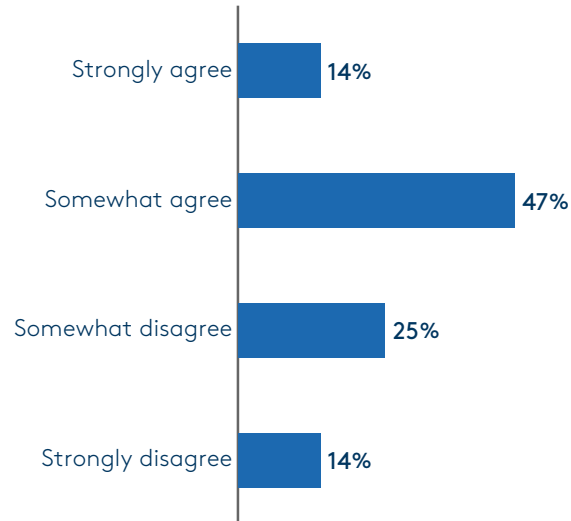
### Knowledge and experience to address climate governance issues



Base = 1,453

Sixty per cent of respondents somewhat or strongly agree their board has the knowledge and experience to adequately address the climate governance issues facing the organisation (leaving a substantial 40% who do not have adequate knowledge).

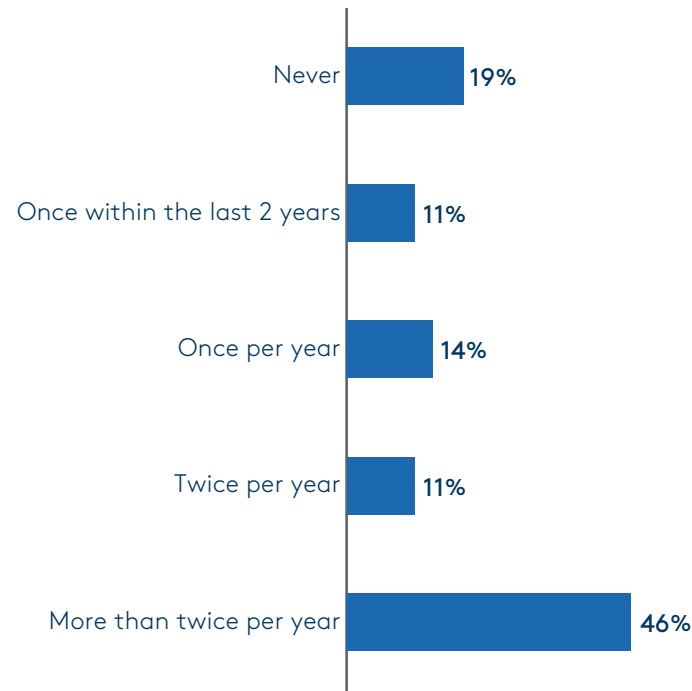
### Increased focus on climate change governance



Base = 1,577

Sixty-one per cent of respondents somewhat or strongly agree their board should increase attention to climate governance.

### Board discussions on Environmental, Social and Governance Issues (ESG)



Base = 1,560

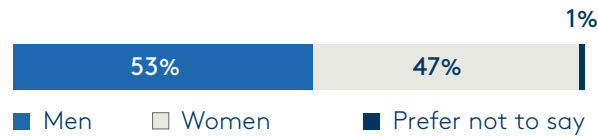
Environmental, social and governance issues feature on the board's agenda more than twice per year for almost half (46%) of respondents and never for 19 per cent.

### QUESTIONS FOR CONSIDERATION:

- What are the major challenges and opportunities on the horizon?
- What are our key priorities for the coming years?
- Do we spend enough time considering broad ESG issues?
- Do we have capacity to focus on climate change governance?

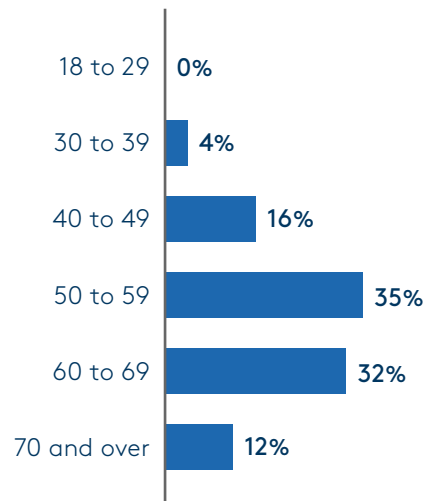
# Breakdown of survey respondents

## Respondent gender



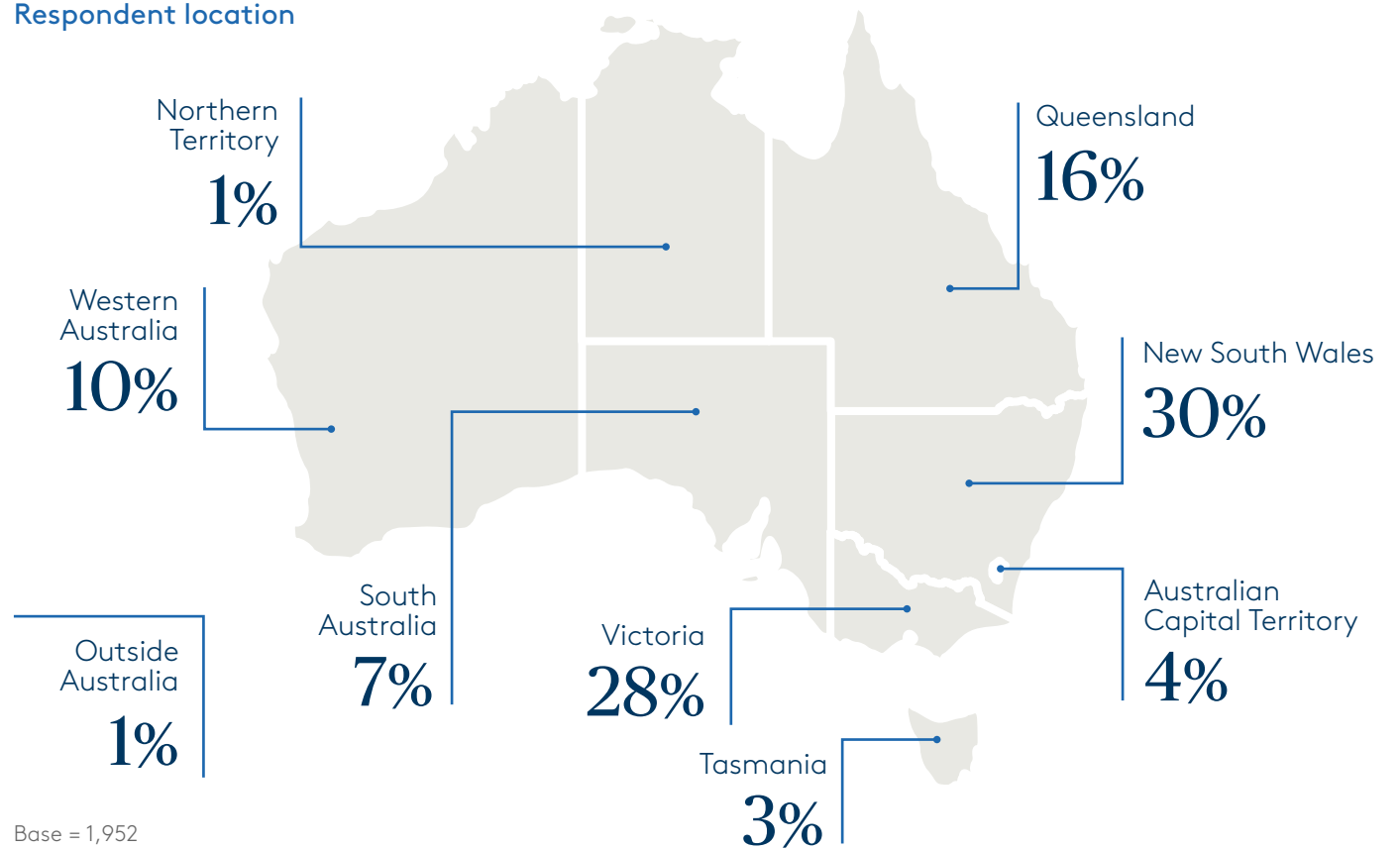
Base = 1,950

## Respondent age



Base = 1,953

## Respondent location



Base = 1,952

### Director or senior executive respondents



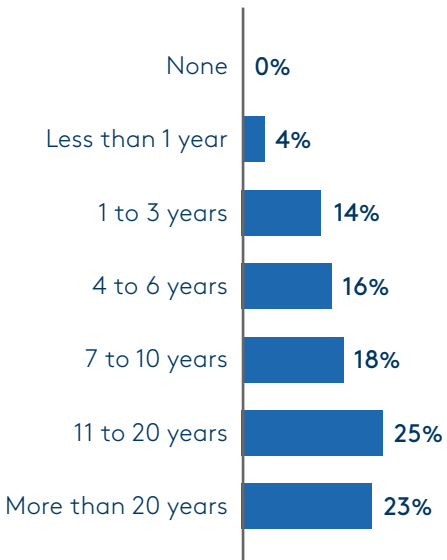
■ A non-executive director  
 ■ A senior executive  
 Base = 2,021

### Chair of board



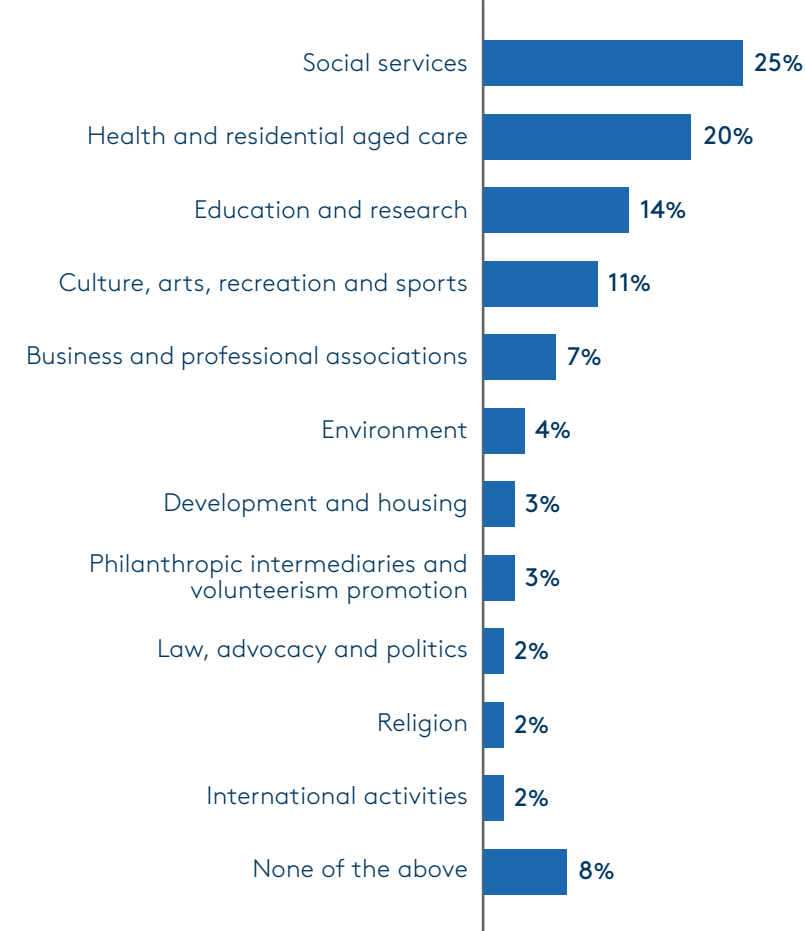
■ No, I am not the Chair  
 ■ Yes, I am the Chair  
 Base = 1,229

### NFP experience (including current and previous directorships)



Base = 1,974

### NFP sub-sector breakdown



Base = 1,938



# Methodology

The Australian Institute of Company Directors (AICD) partnered with Piazza Research Pty Ltd to conduct the Not-for-Profit Governance and Performance Study 2022-23.



## Survey design and data collection

The questionnaire was designed to keep a level of continuity with last year's survey with 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. In doing so, we acknowledge the contributions of BaxterLawley, for provision of data from previous years, enabling longitudinal analysis.

## Sample design

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

Of AICD's more than 49,000 members, approximately 21 per cent nominate their main role to be within the NFP sector. The survey was distributed to all AICD members (and open for non-members to complete), and there were 2,347 responses to the survey. For the 95 per cent confidence interval, this provides overall results accurate to within a +/-2.0 per 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. Where relevant, quotes from the separate focus group report have been used to compliment and contextualise some of the issues discovered in this survey.



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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 the not-for-profit sectors.

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For more information

E: [policy@aicd.com.au](mailto:policy@aicd.com.au)



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