

# Not for-profit boards – why do it?

It has never been harder to be a director of a not for-profit (NFP) organisation than it is today. Unlike their for-profit cousins, directors of NFP's are generally unpaid and do it for the love of the cause and/or to give something back to society.

However, the same risks exist for NFP directors as they do for their for-profit counterparts. Legally the duty of care remains, and the potential for reputational risk is as high in NFP's as they are in for-profit boardrooms.

Some of the many issues that face NFP boards are:

## 1. Financial oversight

Managing a NFP's financials is often a lot more precarious than a for-profit in that NFP's are generally expected to run as close to breakeven as possible. Often a NFP organisation will maintain operating reserves, often set as a small percentage of overall expenditure, as mandated by the board as an effective cushion. They may not have the luxury of building up equity cushions that for-profits have. Their revenue sources are often contingent on the annual good grace of their donors and their ability to source financing in times of need are very limited. Therefore, they are more susceptible to changes in revenue even though cost bases are largely fixed. Hence the financial oversight required can be that much more difficult and onerous.

## 2. Regulatory and compliance

Many of the same regulatory and compliance demands for companies also apply to NFP's. There is a real risk that many NFP's become burdened with regulatory demands

and their real purpose starts to disappear into a fog of regulatory and compliance demands. For example, the Notifiable Data Breaches (NDB) scheme under Part IIIC of the Privacy Act mandated how to respond to data breaches from 22 February 2018. This applies equally to for-profits. The problem for NFP's are they don't necessarily have the same level of resources as for-profit organisations to track compliance. As a result, compromises are often made to spend money on compliance related issues rather than in fulfilling their stated purpose.

## 3. Digital threats

Too many times we hear the phrase "it will never happen to us as we are too small" when it comes to cyber risks and digital theft. The NFP sector is as vulnerable to cybercrime as any other sector, probably more so because they are an easy target. They also don't have the resources that for-profits do to spend on cybersecurity. However, they have the same data issues in that they may possess member information, for member based organisations, and donor

details for fundraising initiatives. In addition to this, they can be targeted for the same malware scams that face for-profit organisations. In this age of digitisation, the onus is on the organisation to protect their and their donor's, information and hence NFP's need to make sure digital risks are treated with the same level of diligence as employee safety or other risk factors that can be determined through risk assessments.

#### 4. Stakeholder demands

Stakeholders are rightly demanding increased openness from all NFP's. Donors and volunteers expect to see how much of their donations go towards the actual purpose of the charity versus administration costs. Governments require grant recipients to ensure all regulatory and compliance policies are abided by. Employees want to understand the vision not to mention the long-term viability. This all becomes a fine balancing act for the board to navigate the range of and sometimes competing stakeholder expectations.

#### 5. Volunteers

Just about every NFP relies on volunteers to help them deliver on their purpose. Whether this is people donating time to sort clothes, pack boxes, deliver packages or sit on boards, people are donating their time because they believe in the social cause the NFP supports. Without this level of support, many NFP's couldn't operate. However, with it comes the difficulty of working with people's schedules and demands. You don't always have the option of performance rating volunteers, or issuing warnings when people show up late or not at all. Finding a good reliable source of volunteer staff is important for most NFP's to aid them in delivering their annual targets.

#### 6. Structure

A common dilemma faced by many NFP organisations that have grown over time is that their structure often impedes their ability to put in place good governance. Many member-led organisations may have grown from state-

based groups and require equal representation on national state-based groups and require equal representation on national boards. This can make board sizes too big to manage and limits the scope to introduce truly independent board members. The ability to change the legacy structure can often be a very sensitive issue and can lead to a lot of distrust and suspicion if not managed well. Communication is often the key to driving any successful restructure.

#### 7. Reputation

A lot has recently been written about companies needing a 'social license' to operate. This is the everyday reality of a NFP. They rely on the generosity of the community, philanthropic organisations, governments and for-profit companies. The ability to fund raise is largely done based on the reputation of the organisation and the cause they are raising for. They go in to every year not necessarily knowing where their revenue is going to come from and must rely on people to believe in their stated purpose and that they are making a difference. Damage to the NFP's brand or reputation will severely limit their ability to raise money, or for people to donate their time. There have been several NFP scandals involving founders, ambassadors and directors – it is hard to believe in or fight for a cause when its members and donors perceive it to be tainted.

With all these risks and threats why expose yourself to this and sit on the board of a NFP? It generally comes down to a sense of purpose, a satisfaction in delivering on the purpose of the NFP which means a part of the community benefits when they may not otherwise. The genuine sense of satisfaction you get from seeing the good of what your NFP is doing is extremely rewarding. It can also be a good training ground for would be for-profit board members. But there is a warning here given all the points above, diligence and scepticism are vitally important tools to take in to any boardroom, whether it be a for-profit or NFP.

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