

Should governing bodies of charities and NFPs be paid?

Recently being asked to complete (yet another) survey got me pondering on this tricky question. This survey was from a reputable specialist remuneration consultancy seeking to gain an understanding of how many New Zealand NFPs and charities were paying their governing bodies. Being someone on a variety of boards this got me again questioning the different views on this issue.

Raising the question of governing body remuneration in NFPs and charities is a guaranteed way to spark up a lively debate. In fact, in my experience it sometimes results in a heated and potentially irrational debate such are the depth of views and passion this topic engenders in some people. I have to also admit to my own thinking on this issue being a tad schizophrenic in that it seems to be one of those issues that you can convince yourself logically to support either side of the debate. (Always the sign of a good debater. Ha!)

What are the arguments For?

The case for payment seems to be largely driven by the logic of the commercial world. (And that in itself is more than enough to spark up heated debate in the NFP/Charity world!) The primary logic espoused is that to attract high quality governing body members able to devote the time required who have the appropriate skills and experience, then there needs to be a balancing of the risk and responsibilities with a reward for their time and skill.

The past decade has also seen an increasing of sophistication of entities operating within the NFP/Charity world. We have also seen an increasing complexity as regards the environments they are required to compete in and operate within. There are now some very substantial entities and groups operating all manner of operations. Increasingly these will also include some aspect of commercial profit earning component to help fund the overall NFP/Charitable cause.

Even if they are not operating commercial profit seeking enterprises there is no denying that the levels of risk imposed on a NFP/Charity governing board member by all manner of legislation and regulation are greater than that have been in the past. Well perhaps that is not true for all aspects as some liability imposing legislation has been around for quite some time. However, it is now much clearer that this risk and liability exists than it has been in the past.

There is also the concept perhaps best expressed in that rather blunt saying: *Pay peanuts and you will get monkeys*. Sadly, my audit team and I can attest to seeing far too many cases where NFP/Charities receiving pro bono services are receiving precisely the value they paid for them! And most oddly this sometimes applies to professionals, who on paper thanks to their professional roles and experience, should have ample skills for the task. I have sometimes wondered if this strange situation is due to the fact that they are motivated primarily by the “badge of doing good for charity” or perhaps on an “arm-twist” and hence don’t apply the same professional rigour to the role as they would in their paying day job?

Hence you could say in summary that the payment is for:

- Time
- Skills and experience
- Risk

What are the arguments Against?

That's terrible! How can anyone operate in the NFP/Charity world and want to be paid? How shallow and warped their motivations must be!

This is an actual quote from a highly esteemed and long experienced NFP/Charity person when discussing this question. He went on to explain that appropriate reward should be the knowledge of providing community contribution and it being their social commitment. In his view people of appropriate skill and expertise willing to give up their time is a sign of good health of a society. Undoubtedly noble concepts but I do wonder how practical and sustainable going forward?

The question of motivations as well as moral and ethical considerations are the main arguments that appear to be proposed against payment. That, and the perhaps more objective questions of:

1. *Will you actually improve the quality of what you get by paying?*
2. *Are you missing out on good people with the requisite skills and experience needed who cannot afford to be involved? Either due to the opportunity cost for their time, or the simple fact that they cannot afford to be out of pocket.*
3. *Will you put off supporters, other funders, and volunteers by being seen to pay people?*

This last one is interesting and often driven by fear. That is, the potential difficulty of optics of the governing body members being paid commercially for their input while the NFP/Charity has its hand out for donations to help run it. While a somewhat naïve view (as it takes a lot of administration and expertise to be able to run most NFP/Charities efficiently and effectively) a common cry from donors remains; "How much of my donation goes to the cause? I don't want to be funding any individuals working in the organisation or administration."

Many of those opposed to paying governing body members believe it fundamentally undermines the voluntary principle of trusteeship, which they consider is important to uphold public confidence and trust in charities. (However, the cynical auditor in me who has seen far too many examples of poor governance does wonder if the public's idea of trust and confidence is well placed.)

I have also had it argued to me that some funding contracts place restrictions on governing bodies receiving remuneration, although I have to say in all my experience of nearly 30 years of auditing I have yet to see one.

However, this is not to be confused with restrictions on pecuniary gain. This is the concept that persons within a NFP/Charity should not be able to be unduly enriched from their role, i.e. unlike a person in a company who can extract profits of the company. In most cases though it is fine for people employed by a NFP/Charity to be remunerated at an appropriate commercial rate for their time and this not be considered undue pecuniary gain.

There is also the distinction between a governing body member being repaid for direct out-of-pocket expenses such as travel, as well as possibly receiving a small honorarium, compared to remuneration for their time at a commercially comparable rate.

What is happening in the marketplace?

Frustratingly I struggled to find much in the way of reliable data for the NZ market to see how many of our estimated 113,000 NFP/Charities pay their governing bodies. (But would be most interested to be educated on this fact if anyone has access to good New Zealand data). I did however find a couple of studies in Australia. One in 2001 which indicated that between 12 – 15% of Australian NFP/Charity entities remunerated their governing bodies. Then another in 2016 which indicated 14% did. Typically, those that were commercially remunerated were directors of companies operating charitable businesses or superannuation funds and the like.

An interesting comment from a specialist who advertises board roles and places many people on boards was that even a small remuneration for a NFP/Charity governance role can vastly improve the quality of applicants. His theory was that skilled experienced people get approached a lot for pro bono governance roles yet often feel their time and input is not valued. While the amounts are usually far below market rates, even a nominal payment can help make the difference.

I am aware of some boards whose members are not remunerated for their time, but are funded for the costs to attend various conferences and site tours directly related to their NFP/Charity's work. Also, some that budget a professional development allowance for their governing body members so that they can continue to attend skill enhancing professional education.

What can we expect to see in the future?

The continued growth in social enterprise and other forms of pure commercial profit seeking operations within NFP/Charities is likely to increase the demand for payment for professional skills on governing bodies.

The increasing risk and liability for governing body members (a trend which appears to continue unabated) is likely to mean this will not be the last we hear of this debate. From a legal risk perspective, the bottom line is that whether governing body members are paid or not, directors and other governing body members are individuals and as such will be held to account in their governance roles for their responsibilities and performance – or for the lack of it.

And a debate about governing body remuneration that will no doubt continue...



About the Author

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