

# Director Sentiment Survey 2023

## Not-for-profit insights

The Institute of Directors' (IoD) annual *Director Sentiment Survey* takes the pulse of New Zealand's governance community to identify issues and challenges that matter to our members. It provides a high-level view sourced from IoD members across a broad range of entities on economic, business and governance issues.

In our 2023 *Director Sentiment Survey* report released in association with ASB, 25.4% of the 1,112 responses were from directors of not-for-profit (NFP) boards. Here, we explore what the NFP sector told us, including notable variations between NFPs and all other respondents excluding NFP directors (All).

New Zealand's NFP sector has a wide reach positively impacting on people and communities and making a significant contribution to economic, social, environmental and cultural wellbeing. New Zealand has the highest number of charities per capita in the OECD – circa 27,000 – plus around 115,000 NFPs and non-government organisations.

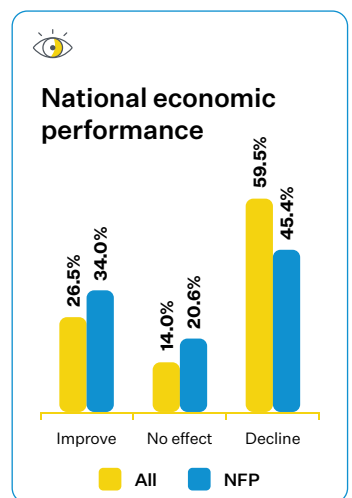
The sector accounts for approximately \$58 billion of assets and contributes around 4.4% of New Zealand's total GDP.

Good NFP governance is important. NFPs face the same challenging operating environment as any other business having to navigate compliance, health and safety requirements, labour shortages and inflationary pressures, all under a high level of public scrutiny.

The NFP sector relies on good governance to provide the culture, oversight and accountability to sustain organisations and help them deliver on their purpose. The *Incorporated Societies Act 2022* and the *Charities Amendment Act 2023* now place a higher level of responsibility onto NFP governing body members.

### Business and economic confidence

Despite NFP directors being less pessimistic about the national economy than all other respondents (see graph), their performance expectations for their own organisations were similar. Cost of living/ inflation topped their list of impediments to national economic performance (46.2%) followed by labour capacity and capability (43.7%) and political/policy uncertainty (31.9%), which mirrored the response for all other respondents.

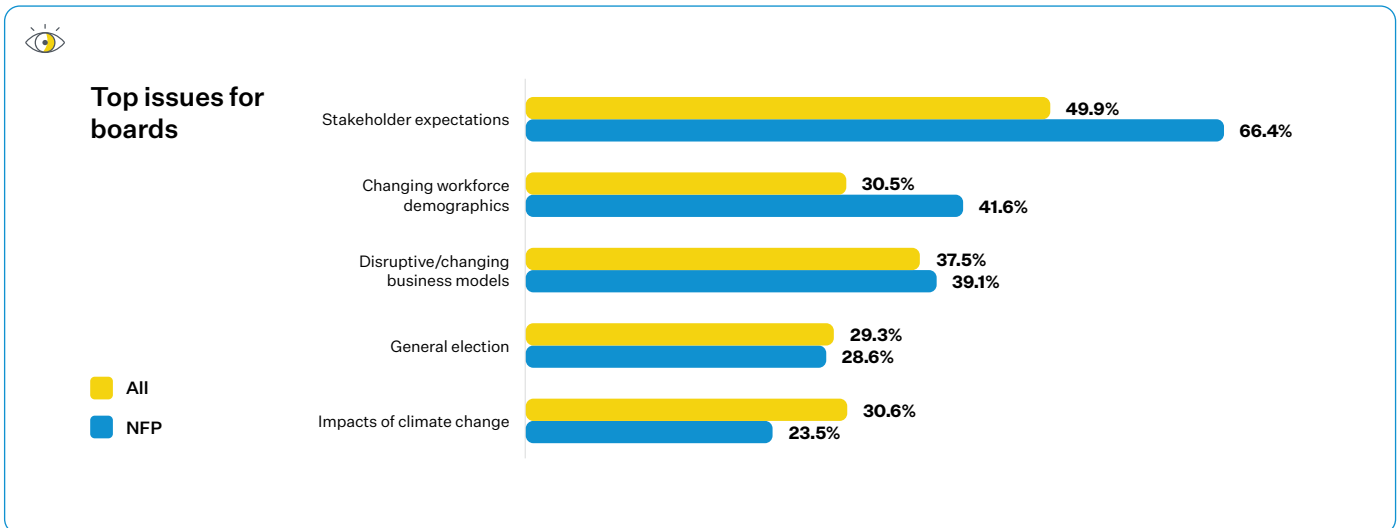


## Top of mind for NFP directors

The top five issues for NFP boards were the same as those for all other respondents, but there was some marked variability in the weight apportioned to each. Once again this year, changing stakeholder expectations was the key focus for directors, however, there was a significant

difference of 66.4% (NFP) in comparison to 49.9% (All). This result is similar to 2022 – 69.4% NFP compared with 47.0% for all other respondents.

NFP boards also had a stronger focus on changing workforce demographics but a weaker focus on the impacts of climate change.



## Determining purpose

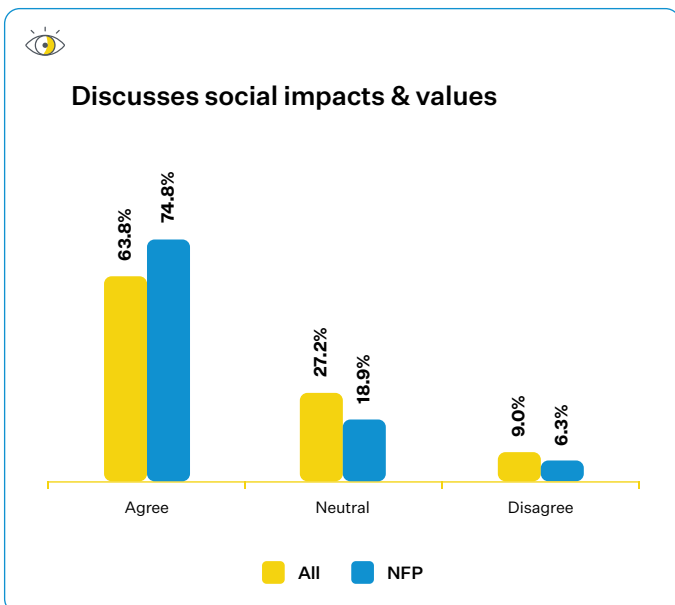
### Social impact and values

The top governance issue facing NFP boards, once again, was social impact and values (74.8% for NFP directors compared with 63.8% for all other respondents). Nonetheless, there was a noticeable drop from 81.7% in 2022 for NFP directors. This reduction aligns with the easing in focus on stakeholder expectations and behaviours.

With stakeholders increasingly seeking to live their values with active choices in employment, investment and purchasing behaviours, organisations need to be walking the walk.

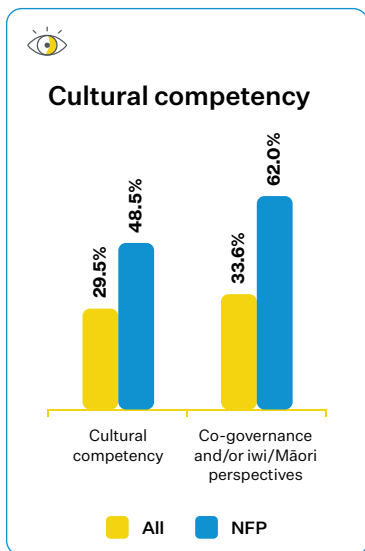
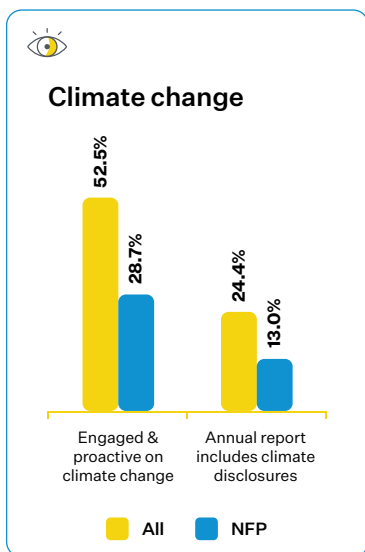
### Environmental impacts

A key area of misalignment is the lack of strategic focus on environmental impacts. Only 31.1% of NFP directors stated their boards spent time strategically discussing environmental impacts in comparison with 56.5% for all other respondents. Notably, 30.1% of NFP directors (and only 13.4% of all other respondents) said that their boards were not discussing environmental impacts.

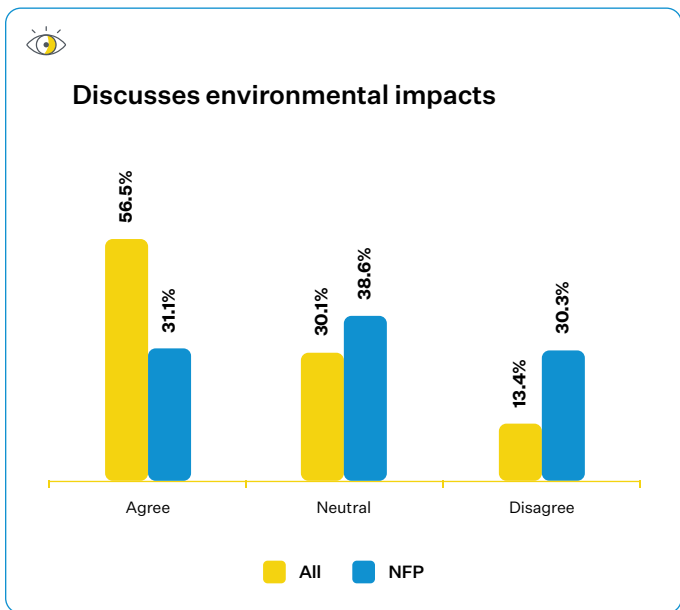


The percentage of NFP directors engaged with and proactively discussing climate change is little changed from 2022 (28.7% in 2023 in comparison to 28.4% in 2022). This remains significantly lower

than the response for all other directors (52.5% in 2023) and continues the trend from previous years. There was, however, an increase in the percentage of NFP directors that stated their latest annual report included disclosures on climate-related risks and/or the impacts of climate change (13.0%, up from 6.9% in 2022), but still well down on the response from all other directors (24.4%).



From water to run offices and land to grow crops, organisations are dependent on nature. It is critical for organisations to understand their environmental dependencies, impacts, risks and opportunities. It is increasingly recognised that nature and climate crises are interdependent.



The low level of engagement with climate change appears contrary to the recognition that key stakeholders' expectations and behaviour changes are driving forces for organisations.

### Cultural competency

NFP directors were more actively engaged in developing cultural competency (48.5% for NFP directors in comparison to 29.5% for all other directors). Nonetheless, this was a reduction from 2022 (54.4%), albeit a smaller reduction than all other respondents.

In response to a new question for 2023, 62.0% of NFP directors said they were looking at co-governance or other ways to better incorporate Māori/iwi perspectives (in comparison to 33.6% for all respondents). This aligns with greater consideration of diversity and high levels of engagement with board composition in the NFP sector as outlined below.

## An effective governance culture

### Future board

NFP boards are facing the future with a sense of unease about whether or not they have the skills and experience to deal with increasing business complexity and risk. Only 41.4% of NFP boards said they have the right capabilities (compared with 50.0% for all others). Despite this, only 37.4% of NFP directors said their boards undertake regular professional development (53.6% for all others).

As discussed further below, less than half of NFP boards undertake a regular formal evaluation of their performance (43.9% in comparison to 53.8% for all), albeit this has increased from 39.9% in 2022. Three quarters of NFP directors are regularly discussing board composition and renewal (only 62.1% for all) and 70.9% are actively considering diversity as part of future board appointments (46.9% for all).

## Board practices

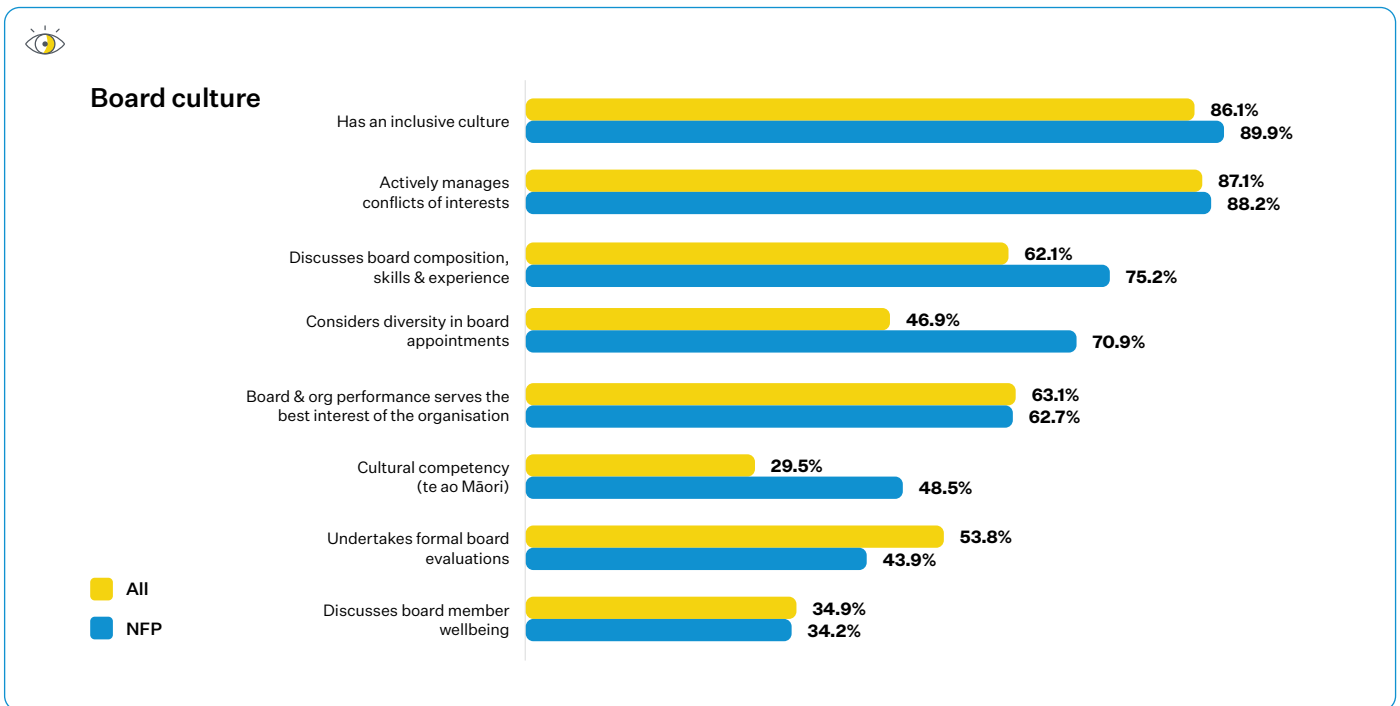
This year has seen an increased focus on the governance arrangements and practices of organisations and scrutiny of a number of NFP organisations. The new *Incorporated Societies Act 2022*, the *Charities Amendment Act*, and the Reserve Bank of New Zealand and Financial Markets Authority [governance thematic review](#) have highlighted the need to enhance governance practices such as board evaluations, succession planning and board structure reviews. Additionally, with the Supreme Court ruling in the [Mainzeal](#) case, the New Zealand Rugby [governance review](#) and conduct concerns raised at [Golf NZ and the Court Theatre](#), governance has been hitting the headlines, for all the wrong reasons.

While a number of areas of culture are closely aligned between NFP directors and all other respondents, there are a few areas of disparity. NFP boards were more likely to be discussing board composition and skills, but also, were more likely to be considering diversity in board

appointments and looking at their cultural competency. These results reflect a positive board culture and good practice. With the new *Incorporated Societies Act* introducing director duties akin to those in the *Companies Act*, and the *Charities Amendment Act* requiring three-yearly reviews of governance procedures, it is good to see NFP boards are having these discussions.

Conflicts of interests also hit the headlines this year with some high profile resignations, but this is an area in which all directors seem to have made significant advancements in. 88.2% of NFP directors stated they have processes in place to recognise, declare and manage conflicts of interest, up from 61.5% in 2022.

A key area for improvement is board evaluations, with less than half of NFP boards undertaking at least biennial evaluations. Independent board evaluations are important for identifying and addressing potential problems and for driving better board performance.



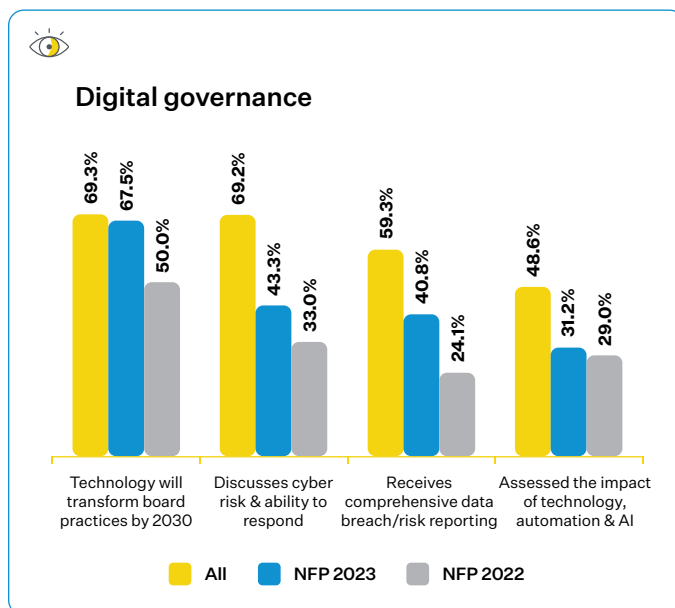
## Holding to account

### Technology and information governance

In the 2022 *Director Sentiment Survey* a significant proportion of boards were not sufficiently prepared for a digital future. Subsequently, digital reality was one of the IoD's [Top 5 issues for directors in 2023](#).

Technology provides both risks and opportunities for boards and organisations, around enhancing productivity, supporting the workforce, climate change adaptation and data analysis. Organisational preparedness starts with board leadership.

While there has been a significant upward trend in digital responsiveness, particularly in relation to discussing cyber risk and ability to respond to attacks (43.3%, up from 33.0% a year earlier) and reporting (40.8%, up from 24.1%), NFP boards continue to lag well behind. While there is general recognition that technology will transform board practices by 2030 (67.5%, up from 50.0% in 2022),



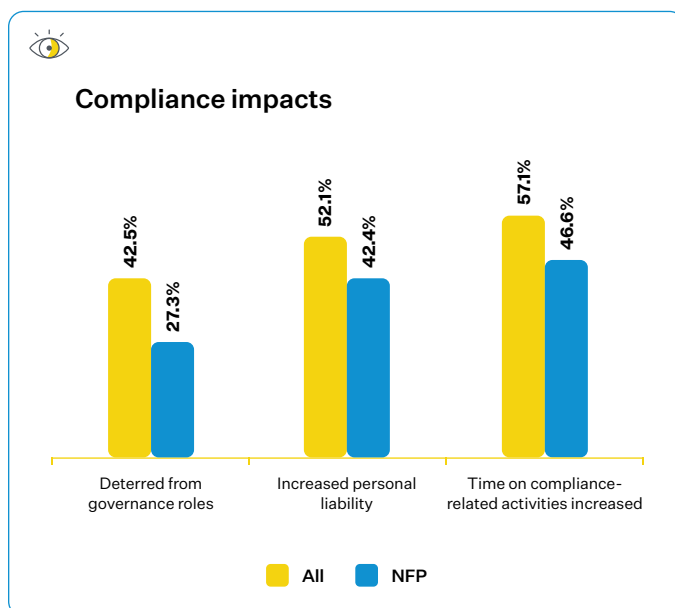
only a third of NFP boards have assessed the impact of technology, automation and AI on their organisation, workforce and future skills needs.

## Effective compliance

### Compliance

There have been a number of changes to the legislation that applies to the NFP sector and three-quarters of NFP directors said that the regulatory and political landscape has had the biggest impact on their board's risk appetite (albeit lower than all other respondents at 82.9%).

Despite this, considerably fewer NFP than all respondents were deterred from taking on governance roles due to the increased scope of responsibilities. Similarly, fewer NFP directors considered that they were more risk averse due to increased personal liability and fewer felt that they'd spent more time on compliance-related activities.



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