

GETTING ON BOARD: A GOVERNANCE RESOURCE GUIDE FOR ARTS ORGANISATIONS



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CREATIVE NEW ZEALAND



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FORWARD:

Kia ora koutou

In April 2001, Creative New Zealand published the first edition of *Getting on Board: a governance resource guide for arts organisations* written by Graeme Nahkies, Director, BoardWorks International.

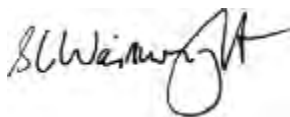
Since that time, Creative New Zealand has continued to promote the development of governance capability in the arts sector by means such as special forums promoting governance skills development. To support that process a second updated and extended edition of *Getting on Board* was published in 2003. It has proved as popular and as useful a resource for the many generous members of the community who make a contribution by serving on boards.

This edition, while still including the fundamentals of good governance practice described in the earlier editions, also includes new material on a number of topics such as performance monitoring, agenda management, chairing the board and succession planning. Creative New Zealand anticipates that this expanded tool kit will further assist board members to confidently do their jobs even better.

Since the publication of the 2003 edition, Graeme Nahkies has continued to facilitate governance-related workshops both for the board members and staff of Creative New Zealand's recurrently funded organisations and for community arts organisations. Feedback and input from arts sector representatives during those workshops has guided this fine-tuning.

My warm thanks to the external readers, the organisations that supported this initiative and especially to Graeme for his expertise and knowledge, as well as his ability to relate generic principles to the New Zealand arts environment.

Heoi ano



STEPHEN WAINWRIGHT
Chief Executive
Creative New Zealand
November 2008

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JUDY MILLAR, UNTITLED, 2007.
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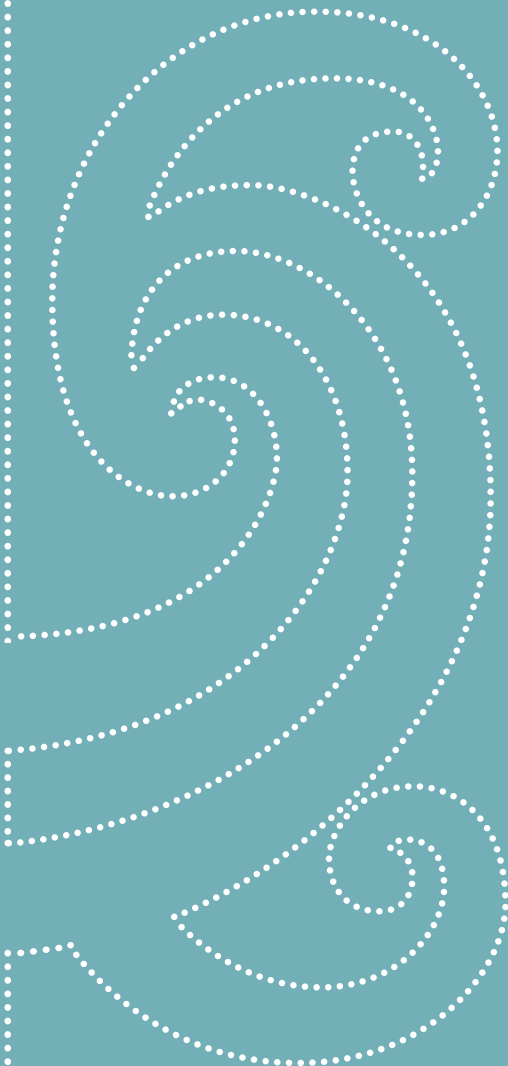
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INTRODUCTION

SECTION 1

THE LEADERSHIP OF ARTS ORGANISATIONS IN NEW ZEALAND – AS IN MANY OTHER PARTS OF THE WORLD - IS NOT GETTING ANY EASIER. AS ARTS PRACTITIONERS IMPROVE THEIR ‘PERFORMANCE’ THERE IS MORE PRESSURE ON THOSE INVOLVED IN THE GOVERNANCE AND MANAGEMENT BEHIND THE SCENES IN ARTS ORGANISATIONS TO LIFT THEIR GAME AS WELL.



The leadership of arts organisations in New Zealand – as in many other parts of the world – is not getting any easier. As arts practitioners improve their ‘performance’ there is more pressure on those involved in the governance and management behind the scenes in arts organisations to lift their game as well.

This is not particular to the arts sector. Since the late 1980s there has been a growing public interest in, and understanding of, the importance of the performance of the governing board of any organisation. As each new edition of *Getting On Board* has been prepared, the subject of effective corporate governance has continued to be a hot topic. It is clear that the expectations stakeholders have of boards and directors are ever increasing. As a result, there has been an accompanying increase in the breadth and depth of the tasks in which a board and its individual members must be competent.

For nearly 10 years now, Creative New Zealand has encouraged arts boards in New Zealand to take up the challenge of providing effective governance leadership and many have responded positively and effectively to this challenge. However, one size does not fit all; each arts organisation and its board are faced with the need to find an approach to the governance of their enterprise that works. Nor is this a ‘one-hit’ exercise. As board membership and organisational circumstances change, so do the governance challenges. Many of the performance challenges facing arts boards are, however, generic. They appear in a wide range of international and organisational contexts and occur irrespective of underlying organisational sector, purpose or characteristics. There is much knowledge and experience that can be pooled and shared to the advantage of all boards.

Starting in May 1999, the Arts Board of Creative New Zealand commissioned Graeme Nahkies from BoardWorks International, a specialist trans-Tasman governance consulting group, to assist it in a governance research project that would ultimately support and strengthen the governance performance of arts organisations throughout New Zealand.

The first stage, involving a cross-section of 10 leading arts organisations, was exploratory – a reconnaissance to identify the organisations’ approach to governance and to understand their principle governance challenges. Key issues identified in the reconnaissance stage were then explored further, drawing on a wider range of views and experiences. This phase was extended to the board members and senior staff of all 31 organisations that were, at that time, recurrently funded by Creative New Zealand. Two other organisations that were not recurrently funded by Creative New Zealand also took part.

This enabled preliminary conclusions to be drawn about governance performance in the arts sector in New Zealand and to identify key areas to which future support and development initiatives should be targeted. The development of the first edition of this guide was the third stage. During 2000 a draft was presented at a series of workshops around New Zealand. The feedback from those sessions was reflected in the first edition of this document.

Since then, each year, Creative New Zealand has arranged for governance development workshops to be held around the country. The content of these workshops and the discussion among participants has strongly contributed to the evolution of the material in this publication. This approach is consistent with the original idea that the contents of the guide should be updated and added to progressively.

1.2

THE NEED FOR LEADERSHIP AND EFFECTIVE GOVERNANCE

Arts organisations, whatever their art form, size or scale, operate in a complex and demanding environment. In a positive sense there is a growing appreciation of the value of the arts not only to the enhancement of the quality of life in New Zealand but also to the expression of a unique national identity and spirit. Public and practitioner expectations of artistic achievement are ever increasing. Less positively, the increasingly diverse and high-quality artistic initiatives in New Zealand are competing for support from the public, patrons, sponsors and the Government which, in financial terms at least, is inherently limited. Arts organisations often seem to be locked in a never-ending struggle to maintain financial solvency, a problem by no means confined to New Zealand.

Therefore, every organisation created and maintained for the purpose of supporting serious artistic achievement must be increasingly efficient and effective. Not only must the artists attain the highest possible standards of creative achievement, but those who support the development and delivery of artistic excellence, like the board, must be equally effective in their contribution.

Governance excellence is not easily achieved in any organisation. Some of the very real challenges are described in Section Two. In arts organisations the challenges are, in some respects, even greater. The focus of attention is understandably on the creative endeavour itself and it is often difficult to attract committed board members with the time and the appropriate skills to serve on arts boards. This is made more difficult because, to many in arts organisations, their board is little more than a necessary evil – something, for example, to meet legal requirements or to assist in raising the funds needed just to allow the creative activity to take place. This means board service can, at times, be stressful, frustrating and unrewarding. Despite that, many people throughout New Zealand give unstintingly to the arts through their board service. The basic premise of this publication is that, in spite of the challenges, poor governance performance is neither inevitable nor should it be acceptable. Those who volunteer, or are persuaded to serve on the boards of arts organisations, do not set out to govern poorly and many do not. It was apparent in the field research undertaken for the first edition of this publication and the experiences that workshop participants have shared in the succeeding years, that many arts organisations in New Zealand continue to put the spotlight on their governance performance and to seek new and better ways of governing. Most of the typical governance challenges in arts organisations can be met in a positive manner with great benefit to all associated with the arts.

The crucial starting point for the board of any arts organisation might well be a conversation about the standard of governance performance that would match that expected of the artistic/service ‘delivery’ part of the organisation. Just what those standards should be and how they should be attained is not always clear. Many who come to the governance of arts organisations have had little experience in any governance role. Others, for example, may be experienced directors in, say, the business sector, but often find that their experience does not always transfer easily into the not-for-profit arts sector.

Concepts of best practice change over time. Good governance in any sector is a work in progress but particularly so in the arts sector. Many arts organisations have found structures and processes that work for them at a point in time, but as an organisation grows, its markets or its people change, it can just as suddenly find that it needs to change its approach.

While each organisation needs to find its own way, it does not need to do so in an information and experience vacuum, hence the production of this resource guide. It is not, and cannot, be a recipe book for good governance – there are no perfect solutions or universal prescriptions. However, it is hoped that its description of some basic principles will stimulate arts boards to discuss and review their own governance performance. It is intended to challenge boards and their members to be more conscious and deliberate in the way they govern their organisations and, perhaps, to take further steps to enhance their effectiveness. It is not meant to be self-contained, but a guide, both to ways of thinking about the responsibility and work of the board and to other resources.

1.3 TERMINOLOGY

FOR THE PURPOSES OF THIS DOCUMENT THE FOLLOWING DEFINITIONS OR TERMINOLOGIES ARE USED:

- **GOVERNANCE**

Governance in this context is defined as:

The way in which a governing board fulfils its leadership and stewardship responsibilities by setting direction, policies, priorities, performance expectations and monitoring, and ensuring achievement consistent with these in order to exercise its accountability to key stakeholders.

- **GOVERNING BOARD**

This guide concentrates on the role of the governing board – that part of the organisational architecture that has final responsibility for the performance of the organisation. A number of arts organisations in New Zealand also have a wide array of other boards and organisational parts which contribute to meeting various needs – advisory boards, Friends organisations, special purpose committees, foundations etc. For the most part, however, while such elements should be considered part of the overall governance structure, it is the governing board that has final responsibility for the ultimate success of the enterprise.

- **BOARD MEMBER**

Arts organisations have different legal structures some of which might suggest the use of the term commonly used in the commercial sector referring to the members of a board as ‘directors’. But in the

arts world, the term ‘director’ is more commonly used to describe the job of the person who, for example, directs plays or manages a gallery. To avoid confusion, therefore, the terminology board member is used throughout this document.

- **CHIEF EXECUTIVE**

This term is used to refer to the person appointed by and directly accountable to the board for the organisation’s performance. Where the board splits the responsibility between two or more people, other terms (e.g. the general manager and the artistic director) may be used. Some readers of this guide may be associated with organisations that do not have professional management. It is nevertheless important for the boards/committees of such organisations to make a clear, conceptual distinction between the governance and operational functions and to ensure that the governance function is not neglected.

- **ORGANISATION**

The generic terminology applying to an arts organisation also varies in practice. It is often referred to as a ‘company’ either because of its legal status (it is incorporated under the Companies Act 1993), or for traditional artistic reasons (as in the ballet company). In this document we have adopted the term organisation as the generic expression.

1.4 GUIDEBOOK STRUCTURE

This guide is structured to allow the reader to readily find a topic of interest and obtain a general comment on how such aspects of the board’s role and responsibilities might be addressed. The early sections provide an overview of typical arts governance challenges and later sections address more specific issues. Where appropriate, sample governance policies illustrate the points made.

Some boardroom tools and techniques are offered to assist boards to deal with particular aspects of their job. At the end of each section there is a series of discussion topics, provided as a catalyst for board discussions about the matters covered.

Additional resources are identified in the form of books, periodicals and web sites. Readers are encouraged to add their own resources to this guide.

1.5

SAMPLE POLICIES

The development of a coherent set of governance policies creates an essential infrastructure for any board to guide its stewardship of the organisation. At appropriate points through the text a selection of draft governance policies are offered for evaluation and possible adoption. These have been tested in practice on a wide range of organisations in New Zealand, Australia, the US and elsewhere.

There are many different ways of developing and using governance policies. To assist boards to get easy access to a widely published approach to governance policy development, the policy framework described here, and many of the sample policies used for illustration, are derived from the work of John Carver, the originator of the Policy Governance® model. Users of these resources who wish to explore Carver's work and such policies further are particularly recommended to read:

JOHN CARVER. *Boards that Make a Difference*.
San Francisco. Jossey-Bass. Third Edition. 2006.

JOHN CARVER and MIRIAM MAYHEW CARVER.
Reinventing Your Board.
San Francisco. Jossey-Bass. 1997.

JOHN CARVER with CAROLINE OLIVER.
*Corporate Boards that Create Value:
Governing Company Performance from the Boardroom*.
San Francisco. Jossey-Bass. 2002.

CAROLINE OLIVER (Ed).
*The Policy Governance Fieldbook: Practical Lessons,
Tips and Tools from the Experiences of Real-World Boards*.
San Francisco. Jossey-Bass. 1999.

MIRIAM CARVER and BILL CHARNEY.
*The Board Members Playbook: Using Policy Governance
to Solve Problems, Make Decisions, and Build
a Stronger Board*.
San Francisco. Jossey-Bass. 2004.

Draft board policies for not-for-profit organisations can also be obtained from the US-based BoardSource organisation (www.boardsource.org). See particularly:

KATHLEEN FLETCHER.
The Policy Sampler: A Resource for Nonprofit Boards.
Washington, BoardSource, 2000.

It should also be acknowledged that since the publication of the first two editions of this guide it has become more common for boards, particularly in the business sector, to adopt a board 'charter'. While the typical board charter covers, in part, the same ground that a governance policy manual would, the format is different and some boards may wish to consider this alternative approach. A simple web search will identify many real-life examples for examination. The following Australian publication has documented in great detail what a board charter might contain.

GEOFFREY KIEL and GAVIN NICHOLSON.
Boards That Work.
Sydney. McGraw-Hill Australia. 2003.

Wherever sample policies or charters are sourced from, boards are encouraged to work systematically (line by line) through any that it is considering adopting. Be wary of mindlessly adopting someone else's formulations. Adapt them and add or delete content until you have something that will provide a starting framework for governance policies applicable and designed for your own organisation. Do not adopt any policies for which the underlying principles of good governance are not clear. Make sure that the board clearly understands why it is adopting any policy and the expected consequences of its application.

Provided it has a comprehensive and coherent policy framework as a starting point the board can add further policies as the need is identified to address other governance issues.

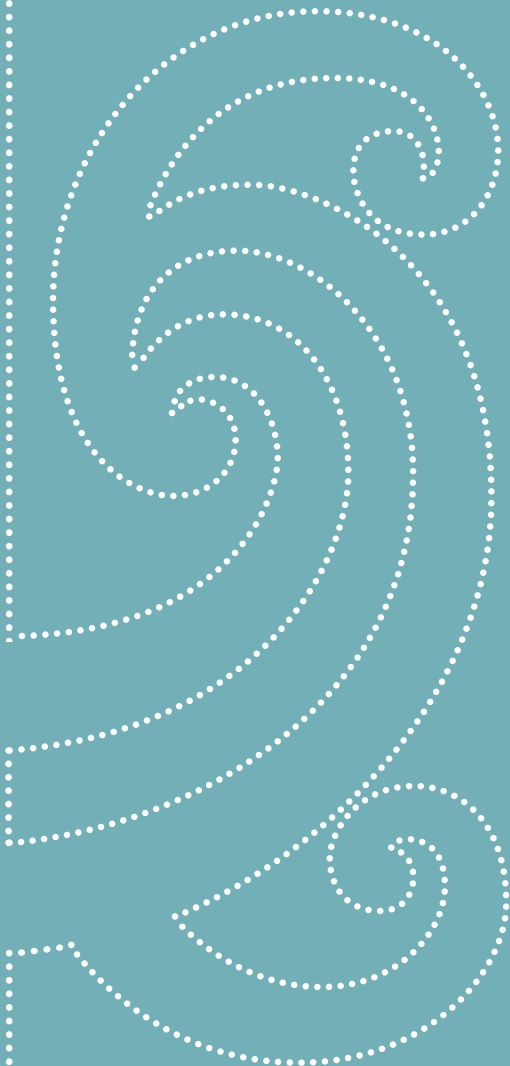
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TYPICAL GOVERNANCE CHALLENGES SECTION 2

AS ARTS BOARDS IN NEW ZEALAND HAVE INCREASINGLY TURNED THEIR ATTENTION TO THINKING ABOUT THEIR GOVERNANCE PERFORMANCE, THEY HAVE IDENTIFIED A NUMBER OF CONCERNS. MANY OF THESE ARE NOT UNIQUE TO ARTS BODIES. SIMILAR CHALLENGES ARE APPARENT TO A GREATER OR LESSER DEGREE IN THE GOVERNANCE OF MANY OTHER TYPES OF ORGANISATIONS BOTH IN NEW ZEALAND AND ELSEWHERE. SOME COMMON GOVERNANCE CHALLENGES ARE OUTLINED BELOW.



2.0

TYPICAL GOVERNANCE CHALLENGES

- **COMPLEX/CONFUSING STRUCTURES**

Many arts organisations have multi-component governance structures which have developed ‘Lego-style’ as additional pieces were added to meet different circumstances. Usually such additions are made to accommodate the needs or expectations of different stakeholder groups. Another manifestation of this problem is in those organisations that have enlarged the size of their boards in order to try either to access additional financial resources, or to obtain a complete representation of stakeholder interests around the board table. The larger the board the more unwieldy it is likely to be and the more likely it is to split into factions.

- **UNCLEAR ACCOUNTABILITIES**

As a result of structural complexity it may be difficult in some cases to identify that part which is ultimately responsible for the actual performance of the organisation.

Many arts organisations recruit and rely on the efforts of unpaid board members who are expected, because of their particular expertise or contacts, to fulfil what are really operational, not governance, roles. As a consequence, accountabilities can easily become confused and the application of operational or professional expertise (e.g. finance, marketing and fund-raising) can exacerbate a tendency for major policy and directional issues to go unresolved or even un-debated. Instead, boards conscientiously grapple with small (usually operational) details which, more often than not, are (or should be) the responsibility of chief executives, artistic directors and their staff.

Another accountability problem stems from the existence of ‘two-headed’ authority in some arts organisations, where more than one staff member (e.g. both administrative and artistic heads) is appointed by, and reports directly to, the board. This dual responsibility for organisational achievement may easily place a strain on an arts board (and one or both of the heads) by dividing its attention and making it more difficult to hold anyone accountable for organisational performance. It can also put the board in the position of having to referee disputes between individuals holding those different roles.

- **INAPPROPRIATE BOARD COMPOSITION**

Many arts boards are reliant on ‘volunteers’ to fill available board positions and, as a consequence, are grateful for anyone willing to join the board irrespective of their ability to contribute to effective governance. There is a related temptation to appoint people who are well known to the chief executive, chairperson or other directors. In this latter case, conflicts of interest can easily arise when the primary qualification is loyalty towards, for instance, the chief executive. Both situations are likely to arise when boards pay insufficient attention to the challenges they need to deal with and the undertaking of effective succession planning.

2.0 TYPICAL GOVERNANCE CHALLENGES

Sometimes inappropriate board appointments are made because there is not a good understanding of the role and responsibilities that any governing board must accept if it is to add real value to organisational performance. A common problem, as noted previously, is that some boards attempt to use the appointment of particular individuals to their boards to secure free professional advice and services, or to access potential sources of funds. While this recognises the reality that smaller organisations cannot afford to purchase such assistance, it can have a variety of negative effects. Unless the role of board members as ‘unpaid staff’ is clearly distinguished from their role as ‘directors’, doing the work of the organisation will crowd out the time and effort needed for real governance direction and leadership. In larger organisations it can also lead to the board unwittingly cutting across responsibilities it has, or should have, delegated to the chief executive and artistic director.

- **A SHORT-TERM BIAS**

There is nowhere else in the organisational structure which should be more focused on the longer term than the body responsible for governance. For many arts boards, however, the greater part of their time and effort is focused on matters that are of relatively historic operational significance. As a consequence, the key part of governing the organisation – designing the future – is often neglected.

- **EXCESSIVE TIME ON MATTERS WHICH ARE RELATIVELY UNIMPORTANT OR ARE NOT PART OF THE GOVERNANCE JOB**

A similar problem stems from a lack of clarity about the board’s job description and also from the absence of a governance-focused work programme that ensures the board concentrates its efforts on those matters to which it can add greatest value. Too few boards take the time to actively distinguish between matters which are important and those that are merely urgent.

- **A REACTIVE ORIENTATION**

In the absence of a clear sense of where their efforts should best be directed many arts boards allow themselves to be distracted by external ‘noise’ or by staff initiatives which do not have a clear governance dimension. This may be compounded when the board does not design and determine its own agenda.

- **REVIEWING, RE-HASHING AND RE-DOING STAFF WORK**

Being unclear about their own unique ‘value-added’ role, many boards spend a significant proportion of their time going over the work that their staff (both paid and volunteer) have already done (or should have done).

- **CONFUSION BETWEEN ENDS AND MEANS**

Many boards fail to define clearly the results which they expect their organisation to achieve (ends) while allowing themselves to be drawn extensively into operational matters (means). It is the ends or outcomes that give meaning to an arts organisation’s work and without them any operational activity (including artistic delivery) is lacking in purpose and direction. This is invariably accompanied by a failure to set and monitor meaningful performance measures for the organisation. The board’s focus tends to be diverted to measures of activity at the expense of a search for evidence of appropriate results and outcomes.

- **LOW STANDARDS OF GOVERNANCE PERFORMANCE**

The boards of cultural organisations expect the highest possible standards of performance and achievement from their artistic and management staff. Rare, however, is the board in the sector that can explicitly demonstrate that it has set, and is holding itself accountable for, an equivalent standard of performance.

If a board does not have a clear sense of what its own job is and how it would be most effectively implemented, it is not surprising that it does not recruit members who can contribute effectively to the governance (as opposed to the work) of the organisation. As a consequence, many cultural organisations suffer because their boards achieve less than they should on behalf of the organisation.

Potentially significant contributors to the board’s work can be difficult to attract and retain if the board has a poor reputation.

2.0 TYPICAL GOVERNANCE CHALLENGES

- **CHIEF EXECUTIVE/BOARD STRENGTH IMBALANCE**

In some situations boards, or individual members, intrude in such a way as to prevent their chief executive from doing his or her job. In some other organisations, despite their ultimate legal and moral accountability for organisational performance, boards appear comfortable being little more than cheerleaders for the chief executive and/or the artistic director. This means that the board is not only failing to add the value it should, but may be setting the chief executive up for a fall. It is not unusual for a passive, subservient board to come eventually to express concern that their chief executive (or artistic director) is too dominant and that the organisation is too dependent on just one person.

Without an explicit definition of the board-chief executive partnership, in which the authority and contribution of each have been clearly defined, the safe management response is to delegate upwards to the board, further distracting it from its most important work.

- **BOARD EXPECTATION/MANAGEMENT RESOURCE IMBALANCE**

Most arts organisations are very lean on management and administrative structures. Not surprisingly, the resource allocation is geared towards the creation and production of artistic product. This is self-fulfilling in that the emphasis on arts funding (and measurement of performance) is on creation. Few arts organisations have the luxury of a large management resource and often the same people are performing multiple roles in both the artistic and management aspects of the business. The lack of an adequate management resource often creates tension between a board's expectations and the staff's ability to deliver them. Board and arts executives need to be aware of the impact both have on each other. Boards need to be able to prioritise what is most important. Chief executives must be able to negotiate what is realistically achievable with their boards.

- **A PASSIVE OR INEFFECTIVE APPROACH TO SUCCESSION**

Many arts organisations are built around the vision and commitment of a founding board member, or the creative talents and leadership of an inspirational artistic director. There is danger when the organisation becomes overly dependent on that person and his or her energy, commitment or ability to inspire begins to wane. If the organisation is bigger than any one individual and continuity is important a board must face up to the need to plan for others to take the individual's place and even instigate such a change. Many fail to do so until it is too late.

- **LACK OF A SYSTEMATIC AND COHERENT APPROACH TO THE BOARD'S JOB**

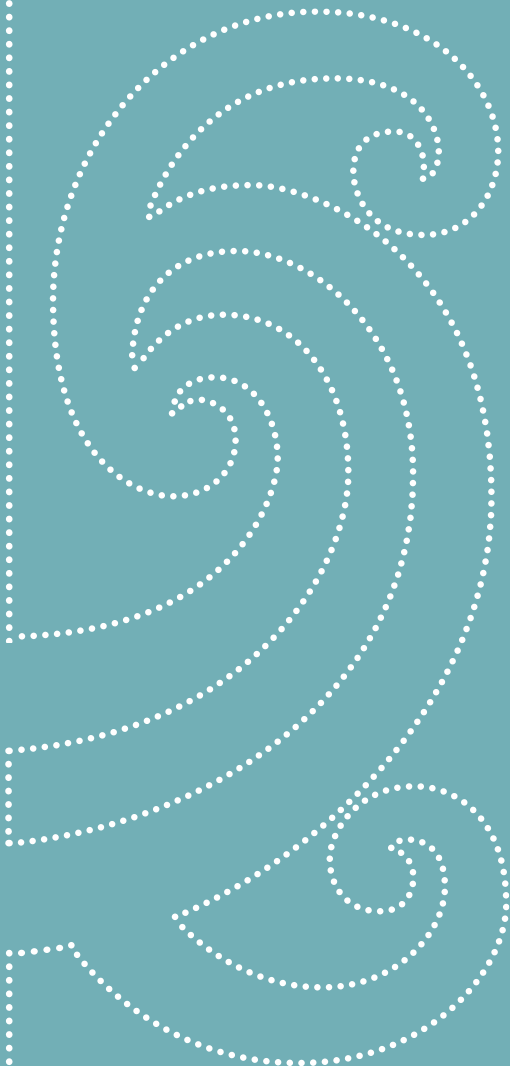
Taken together many of the matters referred to above are a reflection of the common lack of a consistent and systematic approach to the board's work. Many boards understand that their role is primarily to provide direction to, and to exercise control over, their organisation. They also know that they should do this through the articulation of an explicit policy framework. Some boards never quite get around to it. Others, particularly in smaller arts organisations, deliberately eschew what they consider an unjustified formality.

DISCUSSION TOPICS

1. From your and your fellow board members' experience, are there other challenges that should be added to this list?
2. What are the challenges that are most pertinent to your board, and that its governance development initiatives should be directed towards?

THE ROLE OF THE GOVERNING BOARD SECTION 3

ACCORDING TO ONE U.S. AUTHORITY,¹ THE NON-PROFIT ARTS BOARD WAS INVENTED IN THE NINETEENTH CENTURY TO GOVERN AND FINANCE THE SYMPHONY AND MUSEUM. A FEW WEALTHY MEN WOULD UNDERWRITE THE BUDGET AND CALL THE SHOTS. NOW ARTS BOARDS NOT ONLY GOVERN AND RAISE MONEY, THEY ALSO REPRESENT THE DIVERSE CONSTITUENTS OF A COMMUNITY, PROVIDE VOLUNTEER SERVICES AND SHARE COMPLEMENTARY RESPONSIBILITIES WITH PROFESSIONAL STAFF.



3.0

THE ROLE OF THE GOVERNING BOARD

A governing board's primary responsibility, on behalf of its stakeholders, is to ensure that the organisation that it is responsible for remains viable and thrives. This is a stewardship or trusteeship role. It is particularly important to establish a clear distinction between the job of the board to *govern* – provide direction and control – and the job of the chief executive to *manage* the operations of the organisation.

THE KEY FUNCTIONS CARRIED OUT BY A GOVERNING BOARD SHOULD INCLUDE:

1. Defining, within the organisation's legal and constitutional framework, the organisation's purpose, direction and priorities ensuring that these are valued and worthwhile.
2. Specifying key outcomes or results, approving the resourcing to be available for the achievement of those results and monitoring and evaluating the board's achievement.
3. Regularly scanning the environment beyond the organisation to ensure that what it is attempting to achieve remains both relevant and achievable.
4. Communicating with the organisation's 'owners' and other stakeholders to ensure that they have input into the determination of direction and goals, that they are kept informed about organisational performance, and that the board is able to fulfil its accountability for ensuring that the performance of the organisation is consistent with 'owners' expectations.
5. Developing a governance policy 'umbrella' which guides (or, as appropriate, constrains) all operational activities.
6. Establishing a framework for balancing risks and rewards and the management (control and mitigation) of risk.
7. Appointing and supporting the chief executive, evaluating his or her performance and rewarding it appropriately; replacing the chief executive, if necessary.
8. Monitoring organisational and chief executive performance to ensure this is consistent with expectations.
9. Ensuring the organisation complies with statutory and contractual requirements and with the board's own policies.
10. Setting standards for, and evaluating, the board's own governance performance.
11. Ensuring there is appropriate succession planning to ensure a balance between replenishment and continuity on the board and revitalisation of the artistic direction.

In the US not-for-profit sector, particularly, it is argued that another key board role is for members to ensure the organisation has adequate resources by bringing in funds by solicitation of personal connections and by personal monetary donations. This expectation is exemplified in the oft-used phrase '... give, get, or get off'.² Fund-raising is, strictly speaking, not a function of *governing* and while there are exceptions, tends not to be an explicit expectation of arts boards service in New Zealand.³ However, in addition to their governing role, board members may choose to make other contributions. Any search of the web will point to the extensive literature on board-level participation in fund-raising. That literature is overwhelmingly US in origin. Useful local guidance may be sought from the Fund-raising Institute of New Zealand (www.finz.org.nz).

DISCUSSION TOPICS

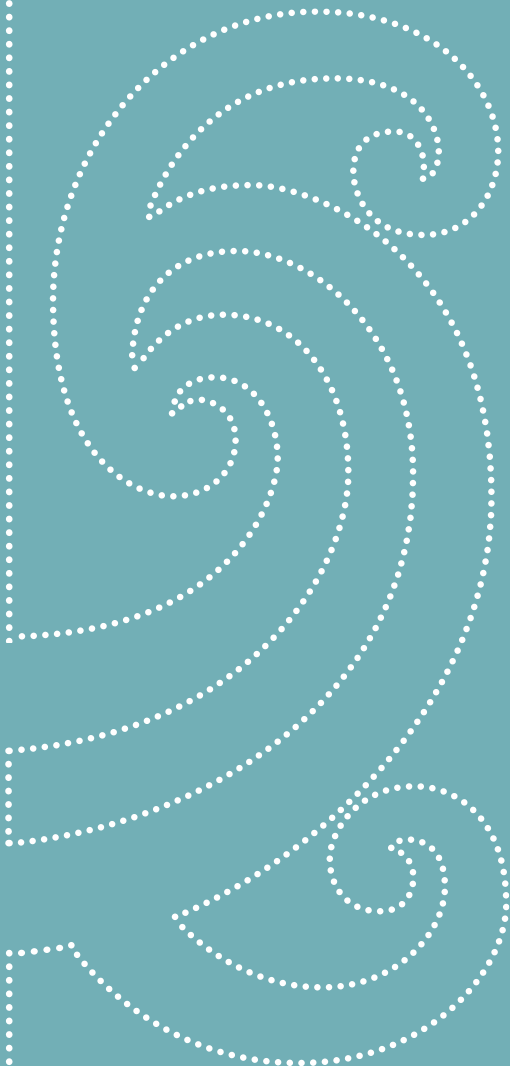
1. Is your board performing the key functions of a governing board?
2. Does it have a clear understanding of the distinctions between governance and management?

¹ Pam Korza and Maren Brown with Craig Dreszen (eds.) *Fundamentals of Arts Management*. University of Amherst, Massachusetts. (5th Ed. 2007).
² See for example Richard T Ingram. *Ten Basic Responsibilities of Nonprofit Boards*. Washington DC: National Center for Nonprofit Boards. Second Edition. 1999.
³ See John Carver. *Board Members as Fund-raisers, Advisors, and Lobbyists*. San Francisco. Jossey-Bass. 1997.

THE LEGAL AND ACCOUNTABILITY FRAMEWORK

SECTION 4

**THE STRUCTURES AND PROCESSES OF GOVERNANCE FLOW,
FROM THE ORGANISATION'S CONSTITUTIONAL FRAMEWORK.
MOST ARTS ORGANISATIONS ARE SEPARATE LEGAL ENTITIES.
AS SUCH, THEY HAVE AN EXISTENCE INDEPENDENT OF THEIR
'OWNERS' AND THOSE THEY EMPLOY.**



4.0

THE LEGAL AND ACCOUNTABILITY FRAMEWORK

In terms of their legal status most New Zealand arts organisations have been established as incorporated societies or charitable trusts. Other forms are also available, for example, limited liability companies with charitable objects. Specialist advice should be taken on the most appropriate structure if change is contemplated. When doing so, arts organisations should be conscious that different legal frameworks may have an impact on:

- artistic integrity (the process of, and influence on, artistic decision-making, acceptable levels of influence and potential loss of control)
- artistic ownership (protection of intellectual property).

Such questions are of particular interest at the stage when the organisation seeks to evolve from management by its founders to, for example, a trust or incorporated society with a board of governors distinct from artistic and managerial personnel. The fear founders have of losing control and artistic integrity is understandable. It may also, however, hinder the further evolution of the organisation.

Most arts organisations are not-for-profit rather than strict commercial ventures, but they must exercise all the normal accountability and performance disciplines expected of any business if they are to survive and thrive. While a key requirement is often to create and preserve tax-exempt status, vital prior questions should concern the nature of the proposed organisation and its operations, the essence of the risks to be managed and the type of relationships needed between the organisation and key stakeholders. It is also, fundamentally, about the assignment of decision-making rights. Who will be authorised to make which decisions and where will the buck stop for the organisation's performance?

Not surprisingly, a wide variety of different governance structures have evolved among arts organisations in New Zealand to meet their different needs and to reflect their different operating styles. Some appear to work better than others. There is no single right way to structure an organisation from a governance perspective, but there are some important principles that should be kept in mind.

- *The governance structure should distinguish the responsibilities of different roles in the organisation with clear lines of accountability between each role.*
This is particularly important in organisations where board members simultaneously wear different hats, reflecting their different roles in the organisation (e.g. member/shareholder, board member, voluntary staff member, performer, consumer or audience member). It is vitally important that everyone is clear when these different roles are being played because the relationships to other roles and the accountabilities between them are fundamentally different. For example, as a board member in an incorporated society your accountability is to the membership as a whole. If, at the same time, you are also a volunteer working in the organisation you are, in effect, an unpaid *staff* member accountable to the chief executive (or other appropriate staff member).

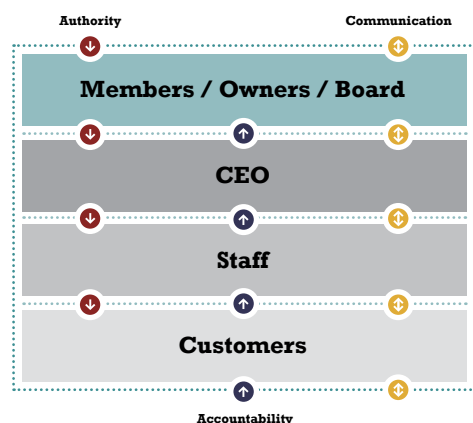
4.0 THE LEGAL AND ACCOUNTABILITY FRAMEWORK

- *There should be only one staff member directly appointed by and accountable to the board.*

It is not uncommon in arts organisations around the world for there to be more than one person (e.g. the chief executive *and* the artistic director) appointed by and reporting directly to the board. Experience of these dual control arrangements is that there is considerable potential for conflict between these two roles. The board is often forced to become referee between the two individuals who may represent the twin tensions in an arts organisation – the expression of artistic judgement versus responsibility for financial viability.

Wherever possible it is preferable for there to be a single person accountable to the board for the organisation's performance. There are many successful examples in New Zealand of single chief executive models. It appears not to matter whether this person is, in effect, the artistic director (e.g. Taki Rua Productions), or the chief executive (e.g. Chamber Music New Zealand). The important thing is that everyone knows who is in charge and accountable to the board.

- *The structure should be kept as simple as possible.*
The following diagram depicts the classical 'unitary' governance structure. In terms of the strict lines of accountability inherent in this model the board is appointed or elected, and acts on behalf of, the members or owners in a stewardship or trusteeship role. It appoints the chief executive, who in turn is the employer of staff, contractors and volunteer (i.e. unpaid) staff.



This model implies a pronounced degree of hierarchy that may be alien to the way many arts organisations prefer to operate. However, strict observance of the appropriate relationships between each of these roles should not be interpreted as impeding a high level of collegiality. Indeed, effective communication (up and down the hierarchy) and team work is essential because each of these roles is interdependent. The board cannot do everything by itself. It needs good staff, and staff definitely need a good board. The important thing is that the different roles are well defined (particularly when individuals are members of more than one category at the same time), individuals are conscious when they 'switch hats' and that the responsibilities of each role is respected and discharged to the highest standard of performance each can muster. Any hint of 'us and them' thinking is a sign that attention needs to be paid to reviewing and aligning mutual expectations.

An organisation that can keep closely to this basic architecture can readily add other specialist elements without confusing accountabilities. For example, it may wish to have a variety of advisory or special purpose groups to provide some form of specialist advice or assistance. In some cases separate groups might be tasked to assist with an aspect of the board's governance responsibilities (e.g. one regional orchestra has made use of an advisory panel to assist with the chief executive's performance appraisal). Board committees containing specialist members who are not also board members may also be delegated to perform aspects of the board's responsibilities. In other cases, such groups may exist to provide operational assistance (they deal with 'means' rather than 'ends') in which case they should be accountable to, and under the control of, the chief executive.

By keeping this role clarity to the fore and helping to remind people when they 'change hats', this model can also cope with the complexities that commonly exist in arts organisations. For example:

- where the staff are the beneficial owners, as well as employees, of the organisation
- where board members may be needed to work in the organisation as volunteers (unpaid staff members).

4.0

THE LEGAL AND ACCOUNTABILITY FRAMEWORK

So long as it has a mandate from the owners/ members, the board is ultimately accountable for all organisational matters within its ambit. In this sense, the 'buck' stops with the board. Board members are jointly and severally responsible for all decisions taken by the board. Board members are required to act in the best interests of the organisation *as a whole*, notwithstanding any obligation they may feel to 'represent' particular interest groups.

Board members are fiduciaries who share common legal and moral responsibilities. These include to:

- exercise a duty of care
- act honestly
- exercise a reasonable level of care and diligence
- avoid using their positions for personal advantage
- comply with all relevant legislation and organisation constitutional requirements
- act in the best interests of the organisation as a whole.

In exercising a stewardship responsibility on behalf of others (usually members of an incorporated society or beneficiaries of a charitable trust) the board is responsible for:

- the achievement of appropriate outcomes
- the financial security of the organisation
- the expression of a moral and social responsibility.

As the governing body of the organisation the board must see to it that the organisation complies with a wide range of legislation covering such areas as employment, trading, occupational health and safety, etc. The board should be aware of the scope and general content of such legislation and its relevance to the organisation.

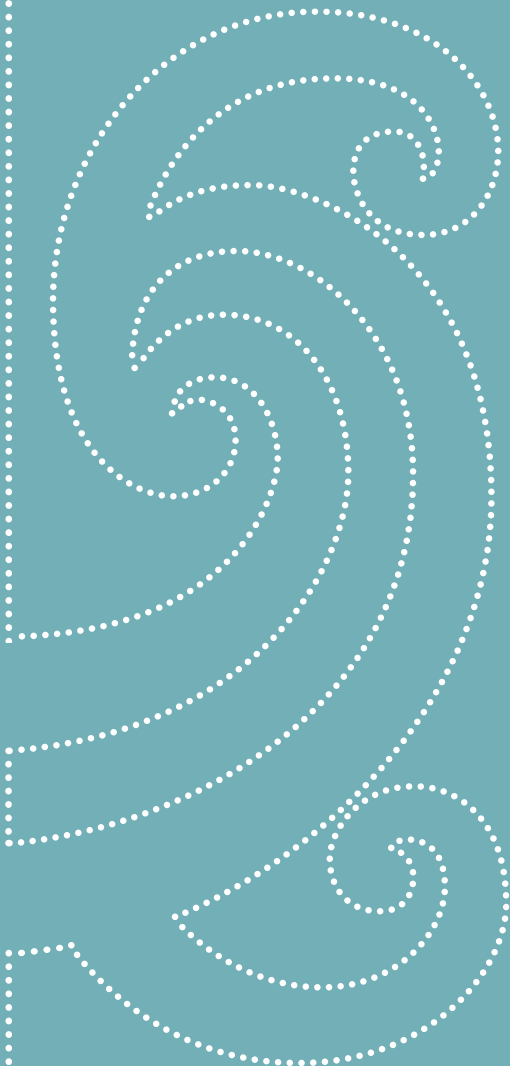
Each board should seek direct legal advice to ensure that it has a clear understanding of its legal and constitutional responsibilities.

DISCUSSION TOPICS

1. Is your present legal framework consistent with the purpose of the organisation?
2. Does that framework support the fulfillment of the organisation's current and future aspirations?
3. Does your governance structure ensure there is clarity of accountability?
4. Do board members understand and accept their fiduciary duties?

STAKEHOLDER RELATIONSHIPS SECTION 5

STAKEHOLDERS ARE THOSE GROUPS AND INDIVIDUALS WHO BENEFIT IN SOME WAY FROM THE EXISTENCE OF THE ORGANISATION. GOOD GOVERNANCE DEMANDS THAT KEY STAKEHOLDER INTERESTS ARE CLEARLY IDENTIFIED AND POSITIVE RELATIONSHIPS ESTABLISHED.



5.0

STAKEHOLDER RELATIONSHIPS

It is important that the board take these relationships into account in determining organisational direction and priority. Boards should consider how to actively involve key stakeholder interests in the process of thinking about, and setting, direction and priorities.

Categories of stakeholder interests include:

- **OWNERS** – few arts organisations are constituted as companies with shareholders. More usually they are incorporated societies or charitable trusts in one form or another. For many arts organisations, therefore, the concept of ‘moral owners’ is a useful substitute to assist in thinking about those people for whom the organisation (and its component parts) exists, but who cannot exercise the same rights as legal owners.

- **THOSE WITH WHOM THERE IS A BUSINESS RELATIONSHIP** – including all those individuals, companies or organisations with which the organisation establishes a contractual relationship for the receipt or supply of services or funding. Included in this group are organisation staff, funding bodies, sponsors and suppliers of goods and services.

Note – In those cases where the governance arrangements have evolved around a core of artistic staff or even one person who is central to the organisation’s very existence (the founding choreographer or dancer in a ballet company, or the players in an orchestra), ‘staff’ may also be synonymous with the ‘owners’.

- **OTHERS** – there may be other important stakeholder relationships: other, even competing, arts organisations, Creative New Zealand, the Ministry for Culture and Heritage and other central government agencies, local government, special interest groups, international bodies, etc.

It is common that arts organisations overseas enlarge their boards to enable a diverse range of stakeholders to participate as board members, particularly important donors, sponsors and procurers of funding. This can mean boards of 30 or more members that have a confused role and are far too large to provide effective governance. In New Zealand there are examples of arts organisations that have resisted the temptation to put representatives of stakeholder groups on their board. Instead they have created separate organisational components to fulfil important functions. The core of the Auckland Philharmonia’s governance structure, for example, clearly represents ‘owner’ interests. In addition, however, it has established ‘satellite’ entities like the Foundation and the Society, which have important roles, for example, in the protection of assets and fund-raising. The Auckland Philharmonia is also an example of an organisation that has deliberately designed its governance structures to put artistic interests at the centre.

5.0

STAKEHOLDER RELATIONSHIPS

STAKEHOLDER ANALYSIS

Boards frequently have to give a lead on sorting out stakeholder relationships that are vital to the success of the organisation. They should ensure that those relationships are conducted appropriately and effectively. It is worthwhile, from time to time, for a board to conduct its own stakeholder analysis to allow it to pay attention to the organisation's most important stakeholders and to ensure that the relationships it wishes to have with those are on track. The table below offers a simple but systematic structure for that discussion.

The point of the process is to identify the most important relationships (positive or negative) from those that are of lesser importance. Because these relationships are dynamic this is an analysis that should be undertaken regularly (at least annually).

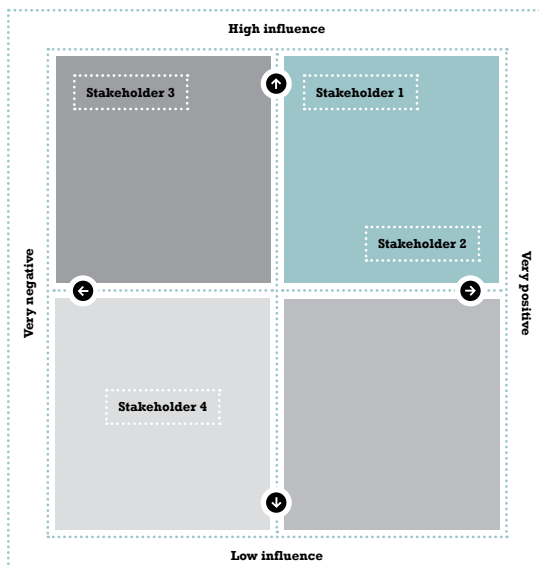
DISCUSSION TOPICS

1. Who are your 'owners' and how does the board express its accountability to them?
2. Have you defined other categories of important stakeholders and how the board expects the organisation to relate to them?

Step One	Step Two	Step Three
List of stakeholders (compile by 'brainstorming' with meeting participants)	Assess degree of influence each stakeholder has (high, medium, or low)	Assess nature of each stakeholder's influence (from very positive to very negative)
Stakeholder 1	High	Positive
Stakeholder 2	Medium	Very positive
Stakeholder 3	High	Very negative
Stakeholder 4	Low	Negative
Etc.		

STEP FOUR – Plot each stakeholder on a grid to get a visual picture.

In this example the board's attention should be focused on Stakeholders 1 and 3.



STEP FIVE – develop appropriate strategies to address relationships that are not consistent with the board's expectations and to maintain those that are.

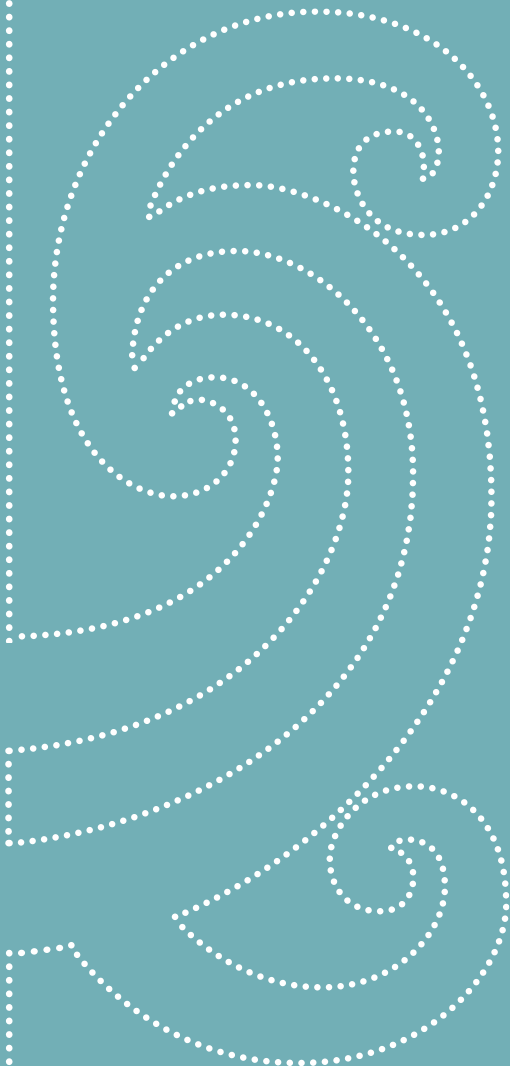
A photograph of two young women performing a traditional dance. They are wearing light-colored, sleeveless dresses with a dark, shimmering bodice and a full, flowing skirt. They are adorned with large, green leafy headpieces and a white flower in their hair. The woman in the foreground is looking to the right with a focused expression, while the woman behind her is smiling. The background is dark, and the lighting is warm, highlighting the performers.

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ENDAMANU ATIU NUI MARUARUA SOCIETY
PERFORM AT THE 2008 ARTS
PASIFIKA AWARDS.

CREDIT

POLICY LEADERSHIP SECTION 6

IT IS GENERALLY ACCEPTED THAT THE ROLE OF ANY GOVERNING BOARD IS TO DETERMINE AND MONITOR POLICY, WHILE IT IS MANAGEMENT'S JOB TO IMPLEMENT THAT POLICY. HOWEVER, THIS CONVENTION APPEARS TO BE NEITHER WELL UNDERSTOOD, NOR EFFECTIVELY APPLIED IN MANY ARTS ORGANISATIONS. INDEED, WHAT EVEN IS POLICY? IT IS IMPORTANT TO GET THIS RIGHT BECAUSE IT IS THROUGH THE BOARD'S POLICY-MAKING ROLE THAT IT IS ABLE TO EXERCISE LEVERAGE OVER ORGANISATIONAL PERFORMANCE. ITS POLICY FRAMEWORK PROVIDES THE FORM OF REMOTE CONTROL THAT IT NEEDS OVER THE ORGANISATION.



6.1

WHAT ARE POLICIES AND HOW ARE THEY MADE?

It is useful to think of policies as those formal statements, reflecting the board's aggregate values and perspectives that underpin and provide *an agreed basis for organisational action*.

The policy-making process should be proactive. Policy development should be conducted in a coherent way, ahead of need. Unfortunately, in many organisations, policy-making is reactive. Policies are developed in an ad hoc fashion to solve a particular problem after it has occurred. Such policy-making is seldom as effective as policy made in advance. For example, it is too late to adopt a conflict of interest policy once a conflict of interest has become apparent around the board table. That almost always means that the policy is tailored to the specific instance and the discussion of it becomes personal.

When developing governance-level policy a board should always start by identifying and defining the highest, broadest or most abstract level of an issue requiring policy direction. Ideally policy-making should start with an overarching policy statement to form an umbrella policy under which its expectations can then be spelled out in progressively greater detail.

The draft policies that follow later in this guide display this sequence from high-level (broad, general) policy statements to lower level (narrow, more specific). While a key requirement is often to create and preserve tax-exempt status, vital prior questions should concern the nature of the proposed organisation and its operations, the essence of the risks to be managed and the type of relationships needed between the organisation and key stakeholders.

The board's objective must be to see to it that the desired *outcome* is achieved. This does not mean that decisions or interpretations would be necessarily exactly the same as those made by individual board members if the delegation were theirs, but it must be a *reasonable* interpretation of the board's words.

6.2 GOVERNANCE POLICIES

The concept of 'policy' is used loosely in many arts organisations in New Zealand with the consequence that governance policies relating to the purpose, direction and performance of the organisation (the 'what' and 'who for' issues) are frequently mixed up with policy relating to *operational* details (the 'how' issues). An effective board carries out its leadership role via the development, adoption and review of *governance* policies.

One policy framework, which has been widely adopted among not-for-profit organisations around the world, is based on the concept of 'policy governance' developed by John Carver.⁴ More than most other 'how to' books on not-for-profit governance, Carver's formulation provides a sound conceptual starting point for any arts board wanting to think about its primary responsibilities and how these might be put into effect. Carver's framework has four policy categories that together embrace the core elements of the board's job.

1. ENDS POLICIES

These policies address the organisation's fundamental reason for being – its purpose – and set the outcomes or strategic results to be achieved by the organisation. These policies also identify the beneficiaries of the outcomes and address the cost, value, or relative worth of the outcomes.

2. BOARD-CHIEF EXECUTIVE LINKAGE POLICIES

These define the nature of the board-chief executive interrelationship, specifying the details and extent of the board's delegation to the chief executive and the methods to be applied in determining chief executive effectiveness.

3. EXECUTIVE LIMITATION POLICIES

These define the constraints or limits the board wishes to place on the freedom the chief executive (and by implication other staff and volunteers) has to select the means to achieve the outcomes the board has selected. While it is common practice to write policies prescriptively (e.g. telling the chief executive what they can or should do), the proscriptive, or limitations approach, paradoxically, gives the board greater control while at the same time offering far more empowerment for the chief executive.

4. GOVERNANCE PROCESS POLICIES

These define the scope of the board's own job and design its operating processes and practices.

Ends policies primarily address the external world in which the organisation exists and the impact the organisation wishes to make on that world. The other three policy categories deal, in a sense, with matters of good housekeeping relating to, for example, the internal environment of the organisation.

⁴ John Carver, *Boards that Make a Difference*. San Francisco: Jossey-Bass Publishers, Third Edition, 2006.

6.3 DEVELOPING, ADOPTING AND REVIEWING GOVERNANCE POLICIES

A board's own governance policies can be initiated, altered or deleted as required. The task of developing governance policies should be carried out with the active involvement of all board members. The process should never be delegated solely to the chief executive or to an outside consultant although it is important that the chief executive and other key staff participate in the process. Policies that define what is expected of the chief executive and thereby other staff (Ends and Executive Limitations policies) must be realistic and achievable and, therefore, informed by chief executive and staff advice. Chief executive/staff understanding of the board's intentions is important if policy implementation is to be effective. Use of an appropriately experienced governance consultant can also be valuable in, for example, speeding up the policy development process and by bringing the experience of comparable organisations to bear on the process.

While board committees or working parties may also be used, for example, to carry out consultation or research leading to the development of a governance policy (or to a subsequent change), only the board as a whole should be empowered to approve or adopt a governance policy.

Once governance policies are adopted, all board members are bound by them. Policies enable the board to speak with 'one voice' even though the policy may only have been agreed on the basis of a majority vote. This is an important concept because within each board quite different interests and constituencies might be represented. There needs to be a process whereby the board as a whole can make a decision which can be implemented, even when board members are not unanimous. Once a policy is made it is the board's policy and carries the board's full weight, regardless of the views of any individual member of the board.

6.3 DEVELOPING, ADOPTING AND REVIEWING GOVERNANCE POLICIES

The board should review its governance policies on a regular basis. Ideally, the board should have a schedule of all its policies which indicate when (and by what method) these should be reviewed. This topic is addressed further in Section 9.

This resource guide and the draft policies used as illustrations are intended to make this task as easy as possible, although the debates about policy issues and what policy should be may, at times, be quite difficult given the complexity and challenges of a board's work.

One last point. Many boards have made governance policies over the years but these remain buried in the minutes of past meetings. Governance policies should always be consolidated into a single document for easy reference and application by board members and staff alike, and to facilitate their revision. A board's policies should always be at the forefront of its work. Ensuring that every meeting agenda item has an applicable policy reference to set the scene for the board's consideration of that item is a pragmatic and powerful technique for achieving policy implementation.

6.4 THE CHIEF EXECUTIVE'S OWN OPERATIONAL POLICIES

Once the board has established its governance policies the chief executive should be expected to develop all further operational policies and protocols necessary to achieve the results and manage the risks addressed in the governance policies.

THE BOARD SHOULD NOT ADOPT OR APPROVE OPERATIONAL POLICIES

Doing so removes the chief executive's ability to make necessary operational policy changes when needed without reference back to the board. The chief executive should not be constrained by having to continually seek board approval for matters that the board should properly delegate, and the board should not have to do the chief executive's job as well as its own.

This does not mean that, from time to time, the chief executive may not seek advice or assistance from individual board members about operational matters. When, however, that advice or assistance is provided, board members put aside their governance responsibilities and the chief executive, when weighing up their advice, has the discretion to choose whether or not to act on the advice.

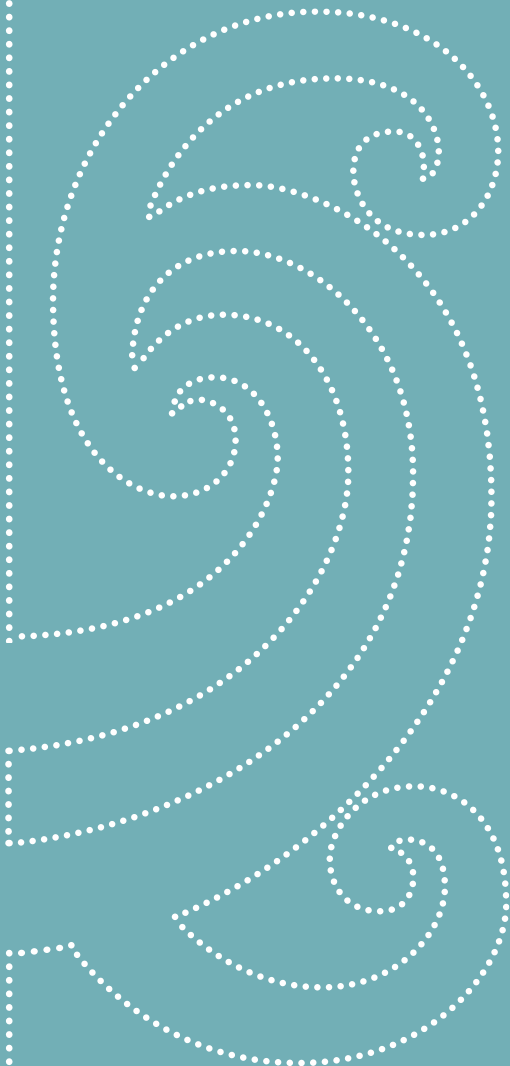
DISCUSSION TOPICS

1. Has your board developed its own governance policies and are these up-to-date?
2. Is there a clear distinction between governance and operational policy?
3. Is there life in your governance policies (e.g. are they understood by all board members and used actively by the board to frame the resolution of important questions and provide leverage, generally, over organisational performance)?

DETERMINING THE ORGANISATION'S STRATEGIC DIRECTION

SECTION 7

WHILE DIFFERENT TERMS ARE USED INTERCHANGEABLY IN DIFFERENT ORGANISATIONS AND MEAN DIFFERENT THINGS, THIS TASK BEGINS WITH ENSURING THERE IS A CLEARLY STATED **PURPOSE** FOR THE ORGANISATION'S VERY EXISTENCE.



7.1

THE NEED FOR BOARDS TO GIVE DIRECTION

Before the board can hold the chief executive (and the chief executive can, in turn, hold staff or volunteer workers, contractors, etc.) accountable for organisational performance, the board must have done its own job.

While different terms are used interchangeably in different organisations and mean different things, this task begins with ensuring there is a clearly stated purpose for the organisation's very existence. This should give real meaning to the work of the organisation and, by making choices clearer, assist with day-to-day decision-making. The board, in conjunction with the chief executive and leading artistic and administrative staff, should regularly address such questions as:

- What is our purpose, our reason for being? (What is our 'Big Idea'?)
- What is the 'essence', ethos or spirit of this organisation?
- If this organisation did not already exist why would we create it?

- What is important to us?
- Where do we want to get to?
- What do we want to become?
- What is our 'mission', our vision?
- Is it still relevant?
- Who are we doing this for? Who should benefit?
- How do we want to interact with each other and the outside world?
- Have we fulfilled our purpose – is it time for us to close the doors and move on?

The answers to these questions may at first glance be relatively abstract. It is important, as a next step, to convert or translate these into more specific outcomes or key results to be achieved. For example, is the purpose of the Big Town Theatre Company to produce timeless and popular theatre like Oscar Wilde's *The Importance of Being Earnest*, or more cutting-edge contemporary works? These are not academic questions and are essential to assist in the development of the type of Ends policies referred to earlier. The absence of clear answers to such questions also prevents the effective monitoring and evaluation of organisational performance.

Traditional strategic plans are often replete with high-sounding vision or mission statements, but these are often little more than statements of good intention and reflect a great deal of wishful thinking. As Scott Adams, the creator of the Dilbert cartoons once said, the average organisational 'mission statement' is little more than a long, awkward sentence that demonstrates the leadership's inability to think clearly.

Many organisations' strategic intentions also tend to be cast in a way that puts the primary focus on activities (what we will do) rather than outcomes (what we will achieve). Falling into this activity trap is a distraction to the board from its primary responsibility – to see that the organisation achieves something worthwhile. It inevitably means that the board's attention will be drawn to measures of how busy the organisation is (how much activity is occurring – e.g. how many shows have been put on); rather than how effective it is (is it achieving the desired results – e.g. how favourable is the audience response?). This makes understanding of organisational performance and measurement of progress toward important goals difficult.

7.1 THE NEED FOR BOARDS TO GIVE DIRECTION

As in many other sectors, there have been examples of organisational failure in the arts sector which can be directly attributed to a lack of board strategic focus and understanding. In one case a theatre company diversified from its traditional offerings into an area that was superficially attractive but where the production cost structure and audience profiles (and expectations) were quite different. The lack of a clear, strategic decision-making framework and the analysis to support the new direction meant that the risk profile of the company completely changed without the board being aware of it. That company failed.

A board should, therefore, ensure that its strategic intentions are expressed in the form of outcome statements specifying the *results* to be achieved (for example: “that members/audiences experience regular live performance by internationally acclaimed ensembles”). It is particularly important that the process focuses on producing statements of ends not means. For that reason, boards should be very wary of producing statements of strategic intent that, in practical terms, are simply statements of ways of doing things (producing, enhancing, facilitating, coordinating, etc.). A related risk is of being locked into a particular, perhaps traditional, way of doing things that inhibits smart thinking about better ways of achieving desired results.

A failure to do this can easily constrain the organisation’s ability to achieve its main purpose. An organisation that is ‘means’ focused can easily become trapped by its thinking about the way it *delivers* rather than what is *deliverable*. A theatre company, for example, that has its own theatre may be easily persuaded that its main purpose is ‘running a theatre’ and that its primary focus should be ensuring that the theatre is as full as possible. A few years back, Taki Rua, in Wellington, found itself in this position. The board’s early preoccupations reflected a group of people struggling to keep a physical theatre facility open. There was a lot of fire-fighting. Being in survival mode absorbed energy and focus at the expense of artistic direction. Having given up its theatre premises, the board could make positive decisions about the future and the achievement of a vision that related to supporting the development of new, indigenous works. It was freed up to approach the achievement of this vision in a vastly different manner. The change in approach also meant a shift in stakeholder focus – more towards actors, writers, etc. It now has a higher expectation of quality and has developed a national focus.

The board’s high-level purpose and strategic outcome statements should generally have a longer-term focus and create a framework within which the chief executive and other staff can prepare shorter-term (e.g. one to three year) business plans that detail the actions required to achieve the longer-term outcomes prioritised by the board.

Who should be involved? A board’s leadership role and its ultimate accountability demand that it take full responsibility for determining organisational direction, but it should not do so in a vacuum. The board should involve not only its chief executive and senior artistic and administrative staff, but key external stakeholders should also be engaged in the discussion as appropriate. The expected results have to be *achievable* and also *acceptable* to a wide range of interests. Given the relatively small size of most arts organisations it is desirable that *all* staff are engaged in the strategic thinking process at some point. If these discussions are effective and real, they build commitment and ownership throughout the organisation and lead to better decision-making and more effective implementation.

The idea that strategic direction must ultimately be determined and owned by the board may seem to run counter to the reality that some arts organisations are driven by the vision and energy of just one person. That might, perhaps, be a founding board member or another person such as a creative director who has exercised particular influence over the organisation for an extended period. However, it is possible for the influence of that person(s) to change gradually from a positive to a negative one. Arts organisations around the world are prone to the phenomenon called ‘founder’s disease’ whereby the founder’s energy, ability and relevance wane over time but they tenaciously keep control of important decisions. Even if they do not noticeably drag the organisation’s performance down, they progressively alienate others who might be willing and able to take the organisation to a new level. It is a very human trait that the individuals concerned, wrapped up as they are in their undoubted commitment to the organisation, may not realise when it is time to stand aside. The possible need to make changes to key personnel so as to revitalise the organisation and to avoid the inevitable threat to its reputation and viability underlines the importance of the board in providing effective long-term stewardship and continuity. The board cannot avoid its responsibility for the overall well-being of the organisation and for acting in the interests of all the people who depend on it in some way.

7.1 THE NEED FOR BOARDS TO GIVE DIRECTION

This problem of replenishment and revitalisation is best addressed by combining board level discussions of future direction with an explicit and regular discussion of succession planning issues. For example, the board should be concerned for both emergency (sudden incapacity) and planned *chief executive* succession (e.g. retirement, contract completion). It must also ensure that the board itself has regular infusions of new blood. For that reason, board members should be elected or appointed for limited terms (e.g. two to three years) with the possibility of extension (conditional on having added value to the board) but no expectation of reappointment.

Not only does the need to tackle the revitalisation or renewal of the leadership present one of its most difficult strategic decisions but the board of an arts organisation also has the job, legally, of winding up an organisation that can no longer fulfil its core purpose and whose time has passed.

Strategic thinking about these types of issues is not a one-off, or even once-per-year (or even less frequent), activity. It should always be kept in mind that the board can only influence the future, and therefore its time and attention should always be focused on 'designing the future'. Cultural organisations in New Zealand operate today in a rapidly changing environment. A board has to ensure that the strategic direction, priorities, etc remain up to date and relevant. Therefore, time should be provided at *every* board meeting to allow the board and key staff to undertake a continuous analysis and assessment of external and internal factors that might assist or inhibit the organisation in the achievement of critical results. Environmental scanning of this type should be done systematically but need not become a major exercise. One way to approach this is by conducting a brief 'radar screen' discussion at every board meeting. It is simply a question of inviting all board members to identify what is happening in the organisation's operating environment that might represent new 'blips' on the organisational radar screen. A brief initial discussion should determine which of these should be subject to monitoring and perhaps a more thorough evaluation in due course. An interesting observation, by the newly appointed director of an arts organisation, referring to the decision to make a major change in the way the theatre operates, was that: "... nothing went wrong, except perhaps the antennae got a bit corroded"⁵. A board should make sure that its 'antennae' are in good working condition at all times and well tuned in to the operating environment.

Important strategic issues should never be far from the board's sights. For example, while to some it may be considered an operational issue, it is important to find a way for the board, senior staff and those involved in programme delivery to engage in an effective dialogue about artistic programming. For a cultural organisation, programming goes to the heart of organisational purpose, strategic direction, risk and, not least, financial viability. These are surely matters of pre-eminent governance concern even though board members, compared to staff, may have no particular experience or expertise. This highlights one of the basic governance paradoxes. A board that does not contain particularly relevant expertise or professional capability is nevertheless still responsible for organisational performance (and indirectly, the careers of those in the organisation that do have the expertise and capability).

⁵ *Dominion Post*, July 5, 2008

7.2 TOOLS FOR STRATEGIC THINKING

The following tools are offered to assist boards in the process of environmental scanning and strategic thinking. While in this resource manual these tools are directed at board members, most are also essential tools for effective strategic *management*, the task of the chief executive and staff.

SWOT ANALYSIS

The systematic review of Strengths Weaknesses Opportunities and Threats is one of the most basic and powerful strategic thinking tools and should be regularly used by the board when analysing the continuing relevance of its strategic ends. Having identified the strengths, weaknesses, opportunities and threats, the board and management should work together to build on the strengths and opportunities and either eliminate the weaknesses or turn them into strengths, and devise strategies to address the threats.

A less formal and structured alternative to a SWOT analysis which can be used at every board meeting is the 'radar screen discussion' referred to earlier.

THE PPESTI ANALYSIS

The PPESTI analysis is an adjunct to the SWOT analysis, focusing in detail on particular elements of the external environment. PPESTI is an acronym for Political, Physical, Economic, Social, Technical and Industry. These are the six main external environments within which most organisations must operate. Directors explore each of these environments as they have an impact on the organisation's future operations, helping to determine the future viability of the organisation and its offerings. Remember that the board's job is to secure a strong, viable future for the organisation on behalf of the various key stakeholders. To do this, it has to be constantly looking to the future and preparing for likely changes, whether these are known or simply anticipated.

WHERE ARE WE TODAY?

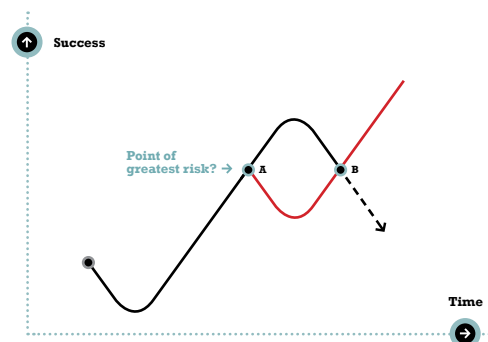
Social philosopher and organisational behaviour expert Charles Handy has described how organisations have a natural 'wax and wane' cycle. Handy uses the 'Sigmoid Curve' (pictured to the right) to show how organisations develop and then decline if they do not, in effect, reinvent themselves. In his view organisations are probably never at greater risk than when they are performing reasonably well.⁶

Point A is where Handy advocates that an organisation should be looking to launch a new curve. At Point A, while it is doing well, it has the resources and the energy to get the new curve through its initial floundering and explorations, *before the first curve starts to dip down*. Unfortunately, all the signals coming into the organisation at that point are that everything is going fine, that it would be folly to change a proven formula. It is only at Point B on the first curve, when disaster is looming, that there is real energy for change. At Point B it may be too late – resources are depleted, energy is low, existing leaders are discredited.

Handy comments that "... wise are they who start the second curve at Point A because that is the Pathway through Paradox, the way to build a new future while maintaining the present".⁷ The best organisations recognise the inherent logic of the Sigmoid Curve and are continually self-critical and oriented to actively seeking out self-improvement opportunities in the manner that has been documented in this report. Organisational cultures are, however, very persistent in the short and even medium term. While some of the recommendations will need little effort to implement, others may require a substantial shift in thinking about how the organisation is managed.

From time to time your board should be asking: "Where are we on the curve?" It is a great way to get a strategic-thinking discussion started.

WHERE IS YOUR ORGANISATION TODAY?



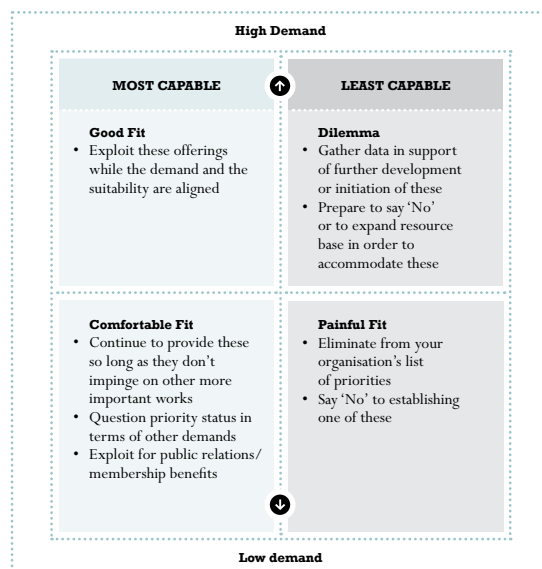
⁶ Charles Handy, *The Empty Raincoat*. London: Hutchinson Arrow Books Ltd. 1994. Chapter 3.
⁷ Charles Handy, *The Empty Raincoat*. London: Hutchinson Arrow Books Ltd. 1994. p 52.

7.2 TOOLS FOR STRATEGIC THINKING

DEMAND-CAPABILITY MATRIX

The Demand-Capability matrix is an adaptation of Michael Porter's Market Share-Growth matrix. The vertical axis represents the *demand* for the organisation's offerings. The horizontal axis represents its *capability* to respond to the demand. Several criteria for capability can be used, such as resource capability, alignment to mission and values, etc. Each programme or service is first placed on the vertical axis, marking the point on the axis where there is agreement about the 'demand'. The same process is then followed using the capability criteria for the horizontal axis. Where the two marks intersect is the point where the programme or service is currently placed on the matrix.

DEMAND-CAPABILITY MATRIX



CAPABILITY = Ability to resource for effective outcomes
DEMAND = Stakeholder demands

This tool is particularly useful in helping board members to understand where its various programmes and services fit in the overall mix. In the 'most capable/high demand' quadrant are those things the organisation does for which there is a high audience demand and the organisation has real strengths in delivering. For example, a music federation may be able to feature a pianist who is renowned for being able to attract an audience for the performance of a particular repertoire. To use the same example in relation to the 'most capable/low demand' quadrant – the pianist's expertise is renowned and he or she has a faithful following even though the programme offering is relatively unattractive. An example of 'least capable/high demand' might be the choir that plans to perform a popular but vocally demanding series of works even though the works do not really suit the strengths of that choir. As far as the fourth quadrant is concerned – 'least capable/low demand' – don't even think about it!

The board must take care to ensure that the discussion that results from the use of this tool is not used by the board to instruct the chief executive *how* to manage the various programmes and services. Day-to-day management decisions are the chief executive's prerogative to the extent defined in his or her delegation. However, the board may recommend that, as the consequence of the placement of a particular programme in the grid, say, for example, in the bottom right-hand quadrant, the chief executive should examine such a programme's ongoing viability.

The use of this tool could lead to the board agreeing to change its strategic priorities, with such agreement resulting in management making appropriate consequential operational decisions.

SCENARIOS

Scenario thinking is perhaps the most advanced and most demanding of all the strategic thinking tools. In his book *The Fish Rots from the Head*, Bob Garratt summarises Chinese philosopher and strategist Sun Tzu's thoughts on strategic thinking as an example of the logic that sits behind scenario analysis:

The supreme act of warfare is to subdue the enemy without fighting ... use strategy to bend others without coming into conflict. He who can look into the future and discern conditions that are not yet manifest will invariably win. He who sees the obvious wins battles with difficulty; he who looks below the surface of things wins with ease.⁸

⁸ Bob Garratt. *The Fish Rots from the Head: The crisis in our boardrooms: Developing the crucial skills of the competent director*. London: Harper Collins Business, 1996, p94.

7.2 TOOLS FOR STRATEGIC THINKING

Through the development of a range of scenarios the board creates possible combinations of future events against which to test its thinking. While each scenario should be markedly different, it should also be considered feasible. The environmental factors in the scenario should be both within and beyond the organisation's control. Although various board members will argue about what is a reasonable likelihood, the debate around this question is itself, an essential part of the strategic thinking. Scenarios start with the question, "What if ...?" The whole board, an individual board member, or small group, with executive support, puts together a description of possible external conditions and events that combine to form a picture of the future. A second scenario can be created that paints a very different future. It is useful to describe a third scenario which might, perhaps, represent a straight-line projection of how things are now while bearing in mind that assumptions about the status quo continuing into the future are seldom safe.

These scenarios should avoid taking a best case/worst case approach. This limits thinking. Rather they should be creative, but possible, scenarios based on the way in which chains of events lead to other events. The board and chief executive then analyse each scenario to test the organisation's capability against each. Questions are asked such as, "How would we cope if this scenario came about?", "How well placed would we be to face these events?" or "How could we best take advantage of this situation if it arose?" By analysing and discussing these alternative futures and the external factors that define them, the board tests its readiness for any number of environmental influences that at some time in the future could have a major impact on the organisation.

An advantage resulting from board involvement in this activity is the use of their external perspective. Management, tired from constantly fighting alligators, can lose sight of the length and breadth of the swamp that they are supposed to be draining. Board members' different views of issues can be refreshing and illuminating.

BRAINSTORMING

Brainstorming – to generate ideas about different issues – is so widely used in organisational life that we assume that everyone knows how to do it. However, there might be some value in briefly restating some of the key rules for the process. These rules are designed to ensure that the brainstorming process is effective and efficient and to maximise the contributions of all participants.

- Accept all ideas offered by participants; record these as proposed on a whiteboard or flipchart
- Don't analyse ideas as they arise
- Stop the brainstorm when the ideas dry up
- Check that everyone understands what is meant by the phrases recorded on the whiteboard or flipchart
- Arrange the ideas into logical groupings
- Debate their significance and relevance
- Rank in order of preference
- Decide what action to take.

There are many other strategic thinking tools and these are documented widely in the host of strategic thinking and strategic planning literature available.

FURTHER READING: Graeme Nahkies and Terry Kilmister. *The Challenge of 'Being Strategic' at the Board Level*. *Good Governance* No. 53. September-October 2006.

DISCUSSION TOPICS

1. Is your board effective in giving direction?
2. Has it clearly articulated its expectations about the outcomes or results the organisation should deliver?
3. Is the vision a widely shared one that is likely to be sustainable into the future or is it dependent largely on the current thinking and energy of one person (e.g. the founder)?
4. In what type of deliberations is your board primarily engaged – those that relate to 'designing the future' or those that relate to 'minding the shop'?
5. Does your board actively use a range of strategic thinking tools to remain focused on the future?

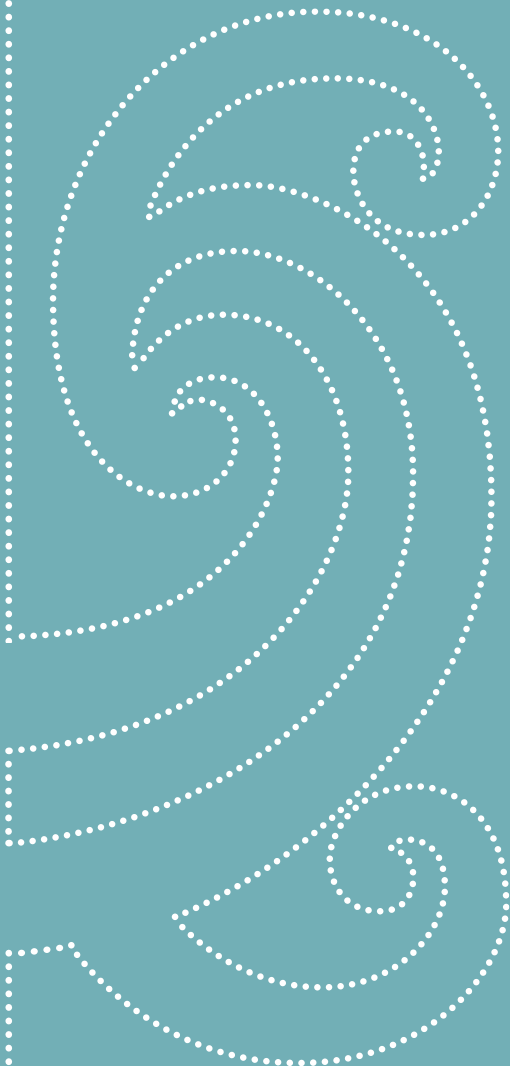
DEAN ZILLWOOD
FOOTNOTE DANCE FOR THE 2008
FOOTNOTE FORTE SEASON OF *MTYLAND*,
CHOREOGRAPHED BY CLAIRE O'NEIL.

CREDIT



BOARD- CHIEF EXECUTIVE RELATIONSHIPS SECTION 8

SOME TYPES OF ARTS ORGANISATIONS UNWITTINGLY FRAGMENT THE CONTROL OF THEIR ORGANISATIONS BY THE BOARD HAVING MORE THAN ONE STAFF MEMBER REPORTING TO IT (COMMONLY AN ARTISTIC DIRECTOR AS WELL AS THE CHIEF EXECUTIVE). A BOARD SHOULD ENCOURAGE UNITY OF CONTROL AND ACCOUNTABILITY BY HAVING ONLY ONE DIRECT EMPLOYEE – USUALLY THE CHIEF EXECUTIVE.⁹ THE CHIEF EXECUTIVE, OR WHOEVER ELSE ACTS AS THE HEAD OF THE OPERATIONAL¹⁰ PART OF THE ORGANISATION, SHOULD EMPLOY ALL OTHER STAFF AND SHOULD ALSO BE ACKNOWLEDGED AS RESPONSIBLE FOR THE WORK OF VOLUNTEERS. A BOARD HAS ALL THE SAME ‘GOOD EMPLOYER’ OBLIGATIONS TO THE CHIEF EXECUTIVE AS THE CHIEF EXECUTIVE HAS FOR OTHER STAFF.



8.1 APPOINTING THE CHIEF EXECUTIVE

A sound board-chief executive relationship is central to a mutually satisfying working relationship and, ultimately, to organisational success. When appointing its chief executive, the board should, therefore, take every care to ensure that it has canvassed the field of available candidates in order to attract the best person for the position. All potential candidates should be thoroughly assessed for appropriate skills and experience, organisational cultural compatibility, and an understanding of, and empathy with, the organisation's artistic vision, core purpose and general business. An ability to develop an effective partnership with the board and whoever is the artistic leader is vital.

Worldwide there has been a trend towards increased chief executive turnover. This can be traced to a number of factors. In part it is because good chief executives are in high demand and are susceptible to being attracted to new, more demanding and better-rewarded positions. Just when things seem to be going well, therefore, a board may well face the sudden, unplanned need to replace an effective chief executive.

It is also a reflection of the pressures on all organisations today whether in the commercial, governmental or not-for-profit sectors. Just to survive, let alone thrive, an organisation and its leadership need to be very dynamic and adaptive. In this situation many boards have to face the harsh reality that even a chief executive who has served an organisation well in the past is not necessarily the person best suited to take the organisation through the next stage of its evolution.

For these and other reasons boards have to face, more often, the challenge of appointing a new chief executive. The direct costs of replacing a chief executive can be very expensive; the cost of a poor decision is incalculable.

"Boards have no one to blame but themselves if their CEOs disappoint them." This is a quote from an article by academics Bennis and O'Toole¹¹ who say that boards pick the wrong chief executives because they pay no heed to real leadership as the selection criterion. To them, leadership is a combination of personal behaviours that allow an individual to enlist dedicated followers and create other leaders in the process. Good leaders, they say, demonstrate integrity, provide meaning, generate trust and communicate values. In doing so, they energise their followers, humanely push people to meet challenging business goals and all the while develop leadership skills in others. Bennis and O'Toole say that real leaders *move the human heart*.

Therein lays the board's challenge – the ability to move the human heart is, as the authors say, "nebulous and squishy", tough to quantify. Understandably, even boards that value such leadership abilities tend to shy away from an assessment of these 'soft' elements. Instead they go looking for hard facts (e.g. evidence of an ability to bring about a big decrease in operating costs or staffing levels) and proof of technical skills. Boards are much more likely to hire the right chief executive if they adopt the following guidelines suggested by Bennis and O'Toole.

8.1 APPOINTING THE CHIEF EXECUTIVE

1. COME TO A SHARED DEFINITION OF LEADERSHIP –

a board should generate a shared definition of what leadership means in the context of current organisational challenges before it goes out to recruit a new chief executive. It must do this before it engages the services of outside executive recruiters.

2. RESOLVE STRATEGIC AND POLITICAL CONFLICTS –

board members often have hidden agendas, differing world views and unspoken disagreements about organisational purpose and strategy.

It is important that a new chief executive does not walk into a situation where he or she is expected to lead the organisation in a fresh direction, but is unlikely to obtain adequate support for whatever direction they chart. Chief executives deserve consistency and clarity of purpose from their boards. Boards can solve this problem by engaging in the same kind of teambuilding they often prescribe to top management. For example, boards should routinely meet offsite in order to build informal relationships and nurture trust. Even if honest differences remain, a board must learn how to bring disagreements to the surface and deal with them in productive and non-disruptive ways. Failing that, a way must be found to replace board members whose personal agendas are at odds with the good of the organisation.

A board should not assume that a new chief executive can come in and put the board's own house in order.

3. ACTIVELY MEASURE THE SOFT QUALITIES IN CHIEF EXECUTIVE CANDIDATES –

many arts board members know how to measure financial results, audience share and so forth, but are simply not comfortable assessing factors such as integrity, the ability to provide meaning, and talent for creating other leaders. There are techniques and approaches for measuring such qualities, particularly through well designed and conducted interviews¹² and other selection techniques.

4. BEWARE OF CANDIDATES WHO ACT LIKE CHIEF EXECUTIVES –

many boards have been seduced by candidates who are little more than articulate, glamorous and charismatic dreamers. Appearances are often deceiving. You cannot tell a leader by what he or she looks like, or by what they say, in staged encounters. It has been said that the one sure way to spot a leader is by the presence of willing followers. One of the main things a board should do, therefore, is to find out whether a candidate has a track record of creating followers and other leaders.

5. RECOGNISE THAT REAL LEADERS ARE THREATENING –

many boards seem to be averse to candidates who threaten to shake things up. Real leaders are threatening to those intent on preserving the status quo. A leader who can motivate people to make changes is, by definition, a destabilising force.

6. KNOW THAT INSIDER HEIRS USUALLY AREN'T APPARENT –

ideally, no one should inherit a chief executive position. Organisations should be meritocracies not monarchies. Boards should, therefore, give 'Crown Princes' the same vetting treatment as 'commoners'. Particular scrutiny should be given to internal candidates if they are to follow highly successful predecessors.

7. DON'T RUSH TO JUDGEMENT –

along with picking too quickly, boards can sometimes mistakenly select a candidate who comes with a detailed plan to turn things around. Such candidates are seductive but potentially dangerous. Boards should be looking for a candidate who has a broad (and long-term) perspective, a set of convictions about the organisation's strategic direction, a clearly thought out managerial philosophy and an understanding of how to galvanise the entire organisation towards change (effective leadership entails doing things through other people).

⁹ In some New Zealand arts organisations the board's direct employee is, in effect, the Artistic Director, who employs the administrative support staff.

¹⁰ 'Operational' in this context embraces the artistic 'performance' aspects.

¹¹ Warren Bennis and James O'Toole. 'Don't Hire the Wrong CEO'. Harvard Business Review pp. 171–176, May/June 2000. See Good Governance No.18

¹² 'Selecting the Right Chief Executive – Questioning the Candidates'. November/December 2000.

8.1 APPOINTING THE CHIEF EXECUTIVE

A board should give serious consideration to adopting a process that includes, or at least considers, the following main steps.

1. AGREEING ON THE MAJOR CHALLENGES FACING THE ORGANISATION AND DEVELOPING AN AGREED DESCRIPTION OF THE QUALITIES OF THE PREFERRED CANDIDATE –

the critical starting point is for the board to develop a clear and agreed description of the type of person it feels will provide effective leadership to the organisation over the next three to five years.

To a significant extent this will flow from the board's understanding of the challenges facing the sector and the organisation itself, of the strategic results the board wishes the organisation to achieve and of both the internal and external 'environmental' conditions that it anticipates affecting it over that time period.

The two most important sources of information for this purpose are within the organisation itself – namely staff and board members themselves. These perspectives are both important and can give clarity and focus to the recruitment process.

STAFF PERSPECTIVES –

obtaining a staff view on the challenges facing the organisation and the characteristics that should be sought in the new chief executive will provide the board with a valuable insight into staff perceptions of the type of leadership they require to give their best. It will also give the board a snapshot of the internal health of the organisation. A process like this should also be designed to increase key stakeholders' sense of 'ownership' of, and support for, the appointee. One way of doing this is to have a facilitated focus group discussion to which staff representatives or all staff are invited. Apart from its general value this will assist the board in making a decision about the desired profile of the new chief executive and in choosing the best-suited candidate.

Depending on its time frame and budget the board might also consider combining with this process an *organisational climate survey*. The conclusions from such a survey can be used to good effect as the basis for the focus group discussions or it can be simply a separate and independent source of information to further its understanding. In the design of such a survey the board should aim to gain a picture of the current situation compared to staff views of the ideal. This would give it an indication of the particular strengths it should seek in the new chief executive.

BOARD PERSPECTIVE –

the chief executive is responsible to the board as a whole. It is important, therefore, that the whole board takes an active part in the recruitment process. The most effective way to do this is to have a thorough discussion at the start of the process to define the desired qualities sought in the new appointee. Again, a facilitated workshop is worthwhile. The aim is to consider staff perceptions gained through the previous step and to agree on the key attributes sought and the key result area that the new chief executive is to achieve.

2. SEARCHING AND SHORT-LISTING

ASSIGNING BOARD RESPONSIBILITY –

If it wishes to, the board can then delegate the recruitment process to a board committee set up to oversee the next phases of the process. A smaller group than the full board is often preferable to provide effective liaison if recruitment consultants are used during the search and short-listing phases and to ensure confidentiality is maintained throughout the process.

RECRUITMENT CONSULTANT –

the committee might be delegated by the board to appoint an external recruitment consultant to assist with the production of a short-list of candidates meeting the board's specifications.

Within an agreed budget the task of that adviser could be to undertake an advertising and/or 'search' process to produce a short-list of say three to five candidates for more detailed scrutiny by the committee. Typically this process would involve documentation on the attributes of each of the short-listed candidates including, ideally, that gained from psychometric testing. There are many different views about such testing but it provides additional and often vital information to ensure that the ultimate appointee is a 'good fit'.

8.1 APPOINTING THE CHIEF EXECUTIVE

SIMULATION TESTING –

There is increasing evidence that reliance on the standard approach of interviews and reference checks – even when supplemented by psychometric tests – does not necessarily produce a candidate whose actual on-the-job performance will meet the board's expectations. If resources permit, short-listed candidates should experience an intensive, tailored simulation of the types of pressure they will face on the job. There are firms that specialise in this type of testing for senior executive appointments.

From these steps it should be possible for the committee to recommend a preferred candidate (or perhaps two) to the full board for final consideration.

When deciding how much of this suggested process to undertake, a board should always remember that most hiring decisions are made primarily on the basis of easily identifiable or recognisable characteristics. These are usually the types of things that can be listed on a CV – for example, a candidate's experience, skills and knowledge. However, this should be thought of as simply the tip of an iceberg. Subsequent 'firing' decisions are almost always made on the basis of attitudes and aptitudes constituting that part of the iceberg that is below the surface. A recruitment process should always be designed to help a board understand what is 'below the surface'.

3. **FULL BOARD CONSIDERATION AND FINAL DECISION FINAL SELECTION PROCESS –**
given the extensive process that has gone before, the final step would be for the board as a whole to meet the leading candidate(s). By this stage it could have considerable confidence that an interview/discussion with the short-list of candidates recommended by the committee would allow it to reach a final decision. At this point it may be little more than a question of the board assessing the degree of chemistry it has with the candidate(s).

APPOINTMENT –

the final step in the process could once again revert to the committee to oversee reference checking and the finalisation of the new chief executive's employment contract within terms agreed to by the board. The contract and performance expectations should fully reflect the board's expectations. It is wise to take specialist advice on both the employment contract and performance agreement aspects of the appointment.

There have been unfortunate examples in New Zealand arts organisations where the chief executive has, in effect, been left to write his or her own contract. In one case this created a virtual job for life on the chief executive's own terms and conditions. When the board decided that new skills and perspectives were needed in the role, the organisation could not afford to buy the existing chief executive out of the contract. The alternative process of managing them out of the role on the basis of diminishing effectiveness was simply beyond the board's capability and willingness to contemplate. For a number of years that organisation underachieved in relation to its potential.

All boards would do well to contemplate which the most expensive option is: a thorough and professional recruitment process, a messy and expensive termination process or years of organisational underperformance.

4. INDUCTION

Steps should also be taken wherever possible to ensure that the new chief executive – particularly if appointed from outside the organisation – is as well briefed and well prepared as possible. The objective is to get the new person 'fully functional' as soon as possible.

⁶ Charles Handy, *The Empty Raincoat*. London: Hutchinson Arrow Books Ltd. 1994. Chapter 3.
⁷ Charles Handy, *The Empty Raincoat*. London: Hutchinson Arrow Books Ltd. 1994. p 52.

8.2 MAKING CLEAR THE EXTENT OF DELEGATION TO THE CHIEF EXECUTIVE

The board should do nothing that undermines its ability to hold the chief executive accountable for operational performance. A particular risk is that the board (or any individual board member including the chairperson) starts directing the chief executive or even worse, other staff, as to *how* something should be done. When this occurs it takes over part of the chief executive's job itself and he or she can no longer be held accountable for the result.

The board's basic operating assumption must be that a competent chief executive is fully capable of managing and overseeing all operational matters. While the chief executive may seek and accept advice from the board or individual board members this should be viewed as no more than the chief executive gathering information from a variety of different sources in order to make an effective decision.

The chief executive should be delegated maximum authority to manage all operational matters. The board's job is to judge the results achieved and to hold the chief executive accountable for those results.

An effective and productive board-chief executive relationship is built around:

- mutual respect for their separate but mutually interdependent roles and responsibilities
- a clear and unambiguous definition of the results to be achieved
- clearly defined and documented delegation and authority
- mutual agreement about the boundaries of freedom granted to the chief executive in order to carry out his or her role and tasks
- a fair, ethical and transparent process for evaluating the chief executive's performance
- an ability to engage in robust debate, and a mutual willingness to challenge and to offer and receive constructive criticism.

In essence, these mean that the board must do its job first. Once the board has made clear its delegation to the chief executive, it must respect the agreements reached and refrain from giving instructions to, or evaluating, any staff member who reports to the chief executive. That does not mean that board members should not be free to talk with other staff, but they must take care to ensure that in the normal course they do not come between the chief executive and his or her staff.

8.3 CONSTRAINING THE CHIEF EXECUTIVE'S FREEDOM TO ACT

It is imperative that the chief executive knows what he or she can do without having to refer back to the board. The chief executive should not be faced with having to continually seek board permission to carry out 'normal' operational actions.

The most effective way of doing this is to define 'boundaries' for management action using a *proscriptive* or limitations format, stating what *cannot* be done, rather than what can or should be done. This may, at first, seem a negative approach but it is one that is quite commonplace. Think, for example, about the Ten Commandments and the Road Code. The main advantages of a 'thou shalt not' approach are that:

- the board has better focus, clarity and more effective overall control
- 'lay' board members are better able to make an input because this approach does not require them to try and tell the chief executive how to do his or her job – only to identify the things that should not happen to and in the organisation
- the provision of clear boundaries gives greater certainty of expectations for the chief executive and less 'second guessing' by the board
- there is increased empowerment for the chief executive
- there is increased likelihood of innovation in the 'means' chosen because operational approaches are not prescribed by the board
- board agendas become less cluttered by the chief executive seeking permission to do things.

Once the boundaries are proscribed, the chief executive is free to work within them using his/her professional judgement to make decisions and take all actions appropriate and necessary to achieve the outcomes and priorities agreed by the board.

The board has the right to impose as many limitations as it chooses and to define these to whatever level of detail it considers necessary. It must reach the point, however, where it is confident that it will be able to support the chief executive in making 'any reasonable interpretation' of its words. If it cannot do this it may need to specify more detailed policy (narrowing still further the scope for chief executive interpretation). Alternatively, it might be forced to conclude that it does not have the necessary confidence in its chief executive and, therefore, should seek a replacement.

On a regular (at least annual) basis a board should examine the key risks facing the organisation. In terms of its stewardship role it must ensure that those risks that could have the greatest impact on the organisation and the most probability of occurrence are adequately covered by policy. 'Executive Limitations' policies may be thought prudent to cover various categories of risks including the following:

- budgeting/financial planning
- financial condition
- investments
- remuneration and benefits
- protection of assets
- property management/physical resources
- ends focus of contracts or grants
- business continuation
- treatment of staff
- equal employment opportunities
- communication and support to the board
- treatment of customers
- programmes and services
- public awareness.

This is not intended to be an exclusive nor exhaustive list. There may well be other types of risk that individual boards would identify as relevant to their particular situation. Similarly, some of the risks topics on the list may have little relevance to some boards. The following are illustrations of this type of policy.

FUND-RAISING

With respect to (name of organisation)'s fund-raising programme, fund-raising activities shall be designed to ensure maximum financial return with minimum

exposure to risk. Accordingly the CEO shall not pursue or in any other way support any fund-raising activity or process which:

1. In any way involves any person, either as a staff member or as an agent of an outside organisation, when that person is known to have been associated with embezzlement or has been convicted for any form of this.
2. Involves (name of organisation) utilising organisational funds in order to match a similar investment by an outside agency or utilises financial reserves or current account to float a fund-raising venture.
3. May bring the name of the organisation into disrepute.

COMMUNICATION AND SUPPORT

The CEO shall not allow the board to be uninformed or unsupported in its work. Accordingly the CEO shall not:

1. Neglect to provide information in a timely, accurate and understandable fashion, addressing the various issues to be monitored by the board.
2. Neglect to provide financial reports that make clear
 - (a) significant trends
 - (b) data relevant to agreed benchmarks and board-agreed measures, e.g. financial ratios to be determined by the board.
3. Fail to inform the board of significant trends, implications of board decisions, issues arising from policy matters or changes in the basic assumptions upon which the board's policies are based.
4. Fail to inform board members when for any reason there is actual or anticipated non-compliance with a board policy.
5. Neglect to inform the board of any serious legal conflict or dispute or potential serious legal conflict or dispute that has arisen or might arise in relation to matters affecting (name of organisation).
6. When gathering information for fully informed board choices neglect to provide a wide a range of views and perspectives.
7. Fail to inform the board of such occasions when it violates its Governance Process or Linkage policies, particularly when this relates to the CEO's ability to carry out his or her responsibilities.
8. Fail to deal with the board as a whole except when responding to individual requests for information or requests from board committees or working parties.

8.4 THE CHIEF EXECUTIVE/BOARD CHAIR RELATIONSHIP

The chief executive is employed by the board as a whole. Only decisions or instructions of the board acting together can, therefore, be binding on the chief executive. This means that, excluding extraordinary circumstances, the chair should not personally issue instructions to the chief executive.

Given their respective responsibilities it is likely that the chair and the chief executive will often meet or communicate outside scheduled board meetings. Great care should be taken, however, to ensure that this forum does not serve as a de facto board meeting. It would be rare for the chair to receive 'official' information from the chief executive that should not also be made available to other board members. The chief executive/chair roles are integral parts of the total leadership team, but together they should ensure that their actions do not exclude the rest of the board.

Regular chief executive-chair liaison can provide a useful opportunity for the chief executive to test

interpretations of board policies and to discuss ideas and options. However, the chair should take care never to be tempted to give, or remove, permission to the chief executive to carry out operational actions. All operational decisions, *within policy*, should be the choice of the chief executive who is then held to account for the effectiveness and appropriateness of his or her choices.

In many arts organisations, particularly those that, because of limited resources, are largely 'working boards', the separation between the board and the chief executive is not as distinct as might be desirable. In these circumstances it is important that the chair, at least, has a clear sense of the separation of powers and can intervene when necessary, perhaps even acting as a protective 'heat shield' for the chief executive when needed. Regardless of organisational circumstances, the chair should never come between the board and the chief executive.

8.5 EVALUATING THE CHIEF EXECUTIVE'S PERFORMANCE

It is hard to overstate the importance of effective chief executive performance management by a board. The starting point for the board in this regard should always be to consider how it can ensure that the chief executive succeeds in the role. However, an apparent weakness in arts governance in New Zealand (and, it has to be said, in many other sectors as well), is that boards have generally not ensured that systematic and objective performance management processes are in place. This is likely to have been to the disadvantage of both boards and the chief executives reporting to them. In certain cases boards have not been able to deal with perceived inadequate performance and nor have chief executives had clear expectations to work to, nor regular, objective and constructive feedback on their performance.

A chief executive should be evaluated only against objective and previously agreed-to performance criteria. The chief executive should also be evaluated only in respect of those matters for which he or she has been delegated full operational authority. The chief executive should not be held to account for the performance of personnel or groups that he or she did not personally select or have full managerial authority over. This may apply particularly to those situations where artistic matters are determined independently of the chief executive.

If a board has an effective policy framework of the type illustrated in this guide, it need make no distinction between the chief executive's achievements and those

of the organisation as a whole. The only exception to this general rule is if the chief executive does not control the resources necessary to achieve the stated results, or has not been delegated the authority needed.

Every board meeting that reviews organisational achievement can be regarded as a component in the assessment of the chief executive's effectiveness. It is still important that there be, from time to time (no less often than annually and ideally every three to four months), a formal assessment of the chief executive's performance against the board's expressed expectations (ends and limitations). The continuous feedback and active communication that is integral to such an approach helps guard against the potential for a growing gap in expectations between a board and its chief executive. Such gaps grow in an almost imperceptible fashion, but are nevertheless real and can eventually result in an irretrievable breakdown in the relationship.

When conducting chief executive performance evaluations, boards should be careful what information is used. Only information relevant to a consideration of whether or not the organisation has achieved the ends or outcomes set by the board and that the chief executive has complied with any 'limitations' policies should be taken into account for performance evaluation purposes. It is inevitable that various stakeholders (including staff) will offer board members opinions about their chief executive's performance. Sometimes these will be positive, at other times negative. Often such opinions

8.5 EVALUATING THE CHIEF EXECUTIVE'S PERFORMANCE

will have little to do with the board's expressed expectations and more to do with, for example, the chief executive's personality traits. Great care should be taken in allowing such opinions to influence an evaluation of the chief executive's performance.

There is a very real risk that the chief executive performance management process can become overly focused on the past and what is wrong, rather than on the future and what is right. If the process is solely used to catch the chief executive making mistakes it will quickly become discredited, particularly in the eyes of the chief executive. As much as anything else it should be a process for allowing the board and chief executive to identify and agree on future initiatives that will assist the chief executive, as well as the organisation, to succeed.

CHECKLIST OF KEY ELEMENTS IN CHIEF EXECUTIVE PERFORMANCE MANAGEMENT:

PLANNING

- **KEEP IT SIMPLE**

The board should clearly express the desired results for the year and nominate priorities and (if necessary) weightings in the form of an annual performance agreement. Ideally, expectations should be unambiguous. Measurements should be tied to the desired outcome not to the input or activity. This should flow from the organisation's strategic and business plans. A job description is a relatively static document not suitable for this purpose.

- **WHAT IS TO BE ACHIEVED?**

Desired results should be defined as clearly as possible even though this is not always easy. Few arts organisations can rely on the simple outcome measures that can be used in a commercial environment (e.g. profitability, or return on capital). It is also possible that behaviour (or behavioural-related processes) like stakeholder management may be just as important in non-commercial environments.

PERFORMANCE MONITORING

- **PERFORMANCE MONITORING SHOULD BE CONTINUOUS**

The board should avoid rushed, once-per-year reviews. These are heavily influenced by recency. Continuous informal feedback is best. It should be affirmative as well as identifying any concerns.

- **THE BOARD SHOULD UNDERSTAND THAT REGULAR REPORTING IS PART OF THE PERFORMANCE REVIEW PROCESS**

When the chief executive provides his or her regular reports to the board on *organisational* achievement these provide a chance for the whole board to be involved in a timely (*chief executive*) review process. Such reports should be in accordance with a board-approved monitoring schedule (see Section 9.2)

- **AN ADDITIONAL STEP SHOULD BE A MORE FORMAL 'WRAP-UP' EVERY THREE TO FOUR MONTHS**

This is a way of focusing more particularly on the chief executive's performance. It provides a chance to reset expectations if necessary.

WHO SHOULD DO IT?

The board should not leave the chief executive performance review to the chair because the chief executive is accountable to the board as a whole. Also, if he or she gets on well with the chief executive, the chair could be prone to exaggerating their achievements and protecting the chief executive from the truth about any concerns with his or her performance. On the other hand, if the chief executive does not get on well with the chair, this could also spell trouble.

The board should, therefore, adopt a process whereby all board members have to think about and express themselves on the way the chief executive is doing the job.

The chief executive can help trigger the board's thinking by preparing a self-assessment. This will help board members to structure their thoughts.

Some of the most useful feedback for both the board and certainly the chief executive will come from staff provided this is collected in a systematic and professional manner. Some chief executives worry that staff feedback is risky to them personally because they may not be popular with staff. However, board members have a way of finding things out – anecdotal evidence can be far more damaging than properly designed and conducted climate or staff feedback surveys. It is important for both the board and the chief executive to understand how people in the organisation feel about the chief executive's leadership.

RESET EXPECTATIONS

Performance expectations should remain as current as possible. It may be asking too much for a board to remember nine months down the track that it implicitly agreed that the budget targets were unrealistic. Make the need for change explicit. Formal expectations should be changed when necessary.

DISCUSSION TOPICS

1. Does the board have in place soundly based documentation in regard to its employment relationship with its chief executive (employment contract, etc)?
2. Does it regularly (at least annually) document its expectations regarding the performance of the chief executive?
3. Does it actively monitor and provide regular constructive feedback on chief executive performance?
4. Does it have a policy framework in place that clearly expresses the organisational ends or outcomes to be achieved and the situations and circumstances to be avoided?

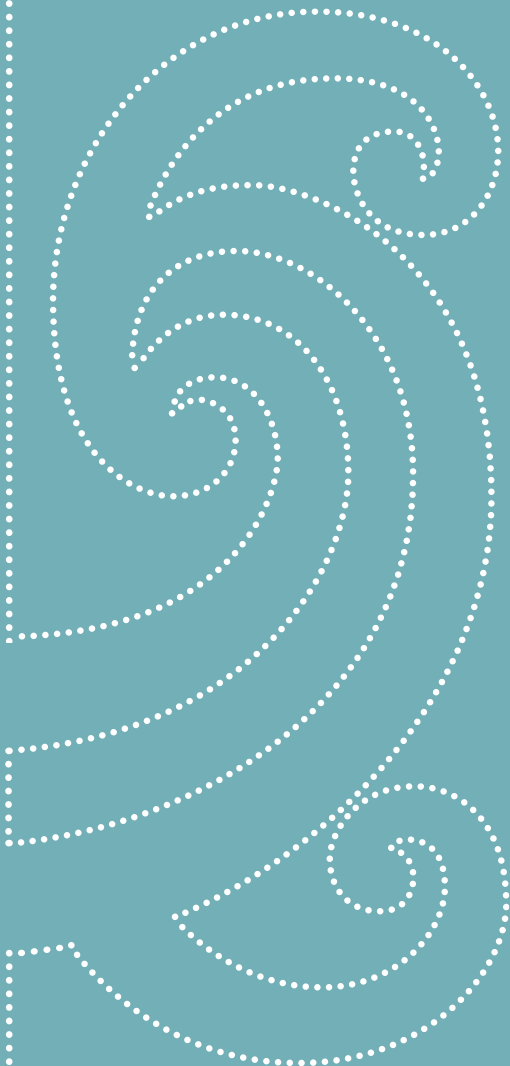
ROBERT CATTO WWW.CATTO.CO.NZ
TONI HUATA AND MINA RIPIA PERFORM AS A PART
OF TAMA TU TAMA ORA, PRESENTED BY THE 2008
NEW ZEALAND INTERNATIONAL ARTS FESTIVAL.

[CREDIT]

MONITORING AND EVALUATING RESULTS AND ACHIEVEMENTS

SECTION 9

IT IS AN IMPORTANT PART OF THE BOARD'S JOB TO MONITOR ORGANISATIONAL PERFORMANCE TO ENSURE THAT THE ORGANISATION IS ACHIEVING SPECIFIED RESULTS AND MEETING THE STANDARDS REQUIRED.



9.1 MEASURING OUTCOMES NOT EFFORT

It is an important part of the board's job to monitor organisational performance to ensure that the organisation is achieving specified results and meeting the standards required. While it is often easier to measure rates of activity (e.g. the number of exhibitions, performances etc.) the board's focus should be on the achievement of desirable *outcomes* (e.g. satisfied patrons), rather than on the *effort* expended by the chief executive and staff to achieve those results.

9.2 MONITORING SYSTEMATICALLY

A board is entitled to review any governance policies at any time, using any method it chooses. However, it is good practice to establish a prior monitoring schedule (an example is shown below) which lists policies and sets out the method and source for acquiring information¹³ and the frequency of monitoring the policy. The chief executive should, in effect, be required to produce compliance reports against each of the policies that relate to his or her responsibilities. The board should separately review any policies that define and relate to its own job. Some policies may be reported against at every board meeting (e.g. actual performance compared to financial policies), while the board may feel others need less frequent monitoring.

MONITORING CHIEF EXECUTIVE PERFORMANCE

The chief executive's performance will be continuously, systematically and rigorously assessed by the board against achievement of the Results policies and compliance with Chief Executive Limitations policies. The board will provide regular performance feedback to the chief executive.

1. The purpose of monitoring the chief executive's performance is to determine the extent to which the board's policies are being met. Only data relevant to the board's policies will be considered to be monitoring data.
2. The board will acquire monitoring data by one or more of three methods:
 - (a) by direct chief executive reporting to the board
 - (b) from an external, disinterested third party selected by the board to assess compliance with board policies, and
 - (c) by direct board inspection, in which a designated director or directors assess compliance with the appropriate policy criteria.

9.2 MONITORING SYSTEMATICALLY

3. In every case, the standard for compliance shall be that the chief executive has met or can demonstrate compliance with the intent or spirit of the board policy being monitored.
4. There will be an annual formal appraisal of the performance of the chief executive. The timing, format and process for this meeting will be negotiated between the chief executive and the board at the beginning of the performance monitoring period.
5. A board committee may assist the board in this process which may make recommendations to the board.
6. All policies that instruct the chief executive will be monitored at a frequency and by a method chosen by the board. The board may monitor any policy at any time by any method, but will ordinarily depend on a routine schedule (see illustration below).
7. If at any time the board engages an outside evaluator to assist the board to conduct an assessment of the chief executive's performance, the process must be consistent with this policy. Any such evaluator is a contractor to the board, not the chief executive.

POLICY	METHOD	FREQUENCY	MONTH
Financial condition	Chief executive report	Annually	
Budgeting and financial planning	Chief executive report	Annually	
Investments	Chief executive report	Quarterly	
Remuneration and benefits	External	Annually	
Protection of assets	Chief executive report	Six Monthly	
Emergency chief executive succession	Chief executive report	Annually	
Treatment of staff	Chief executive report	Annually	
Communication and support to the board	Direct inspection	Six Monthly	
Treatment of consumers/members	External	Annually	
Public affairs	Chief executive report	Six Monthly	

¹¹ For example, an internal report (from the chief executive), an external (independent) report or the board's own direct inspection.

9.3 PROVIDING THE BOARD WITH THE RIGHT INFORMATION

Board members have a right to receive information from management in an understandable and accurate form. Time should be devoted to deciding what the key performance variables are that the board must monitor in order to accurately judge the health of the enterprise. The form and detail of monitoring information should be relevant to that required for sound *governance* decision-making. A board's time is too valuable to allow its meetings to get bogged down in micro-managing operational detail.

Board monitoring should demonstrate a broad, balanced concern for all aspects of organisation performance, not focusing on one aspect (e.g. finance) to the exclusion of other matters. For example, in arts organisations the board will want to monitor the quality of artistic achievement relating to the ultimate purpose of the organisation. Depending on the composition of

the board it may need to seek external advice on the quality of artistic achievement. Some New Zealand arts boards take close notice of published reviews by arts critics. Others may engage specialists to conduct a peer review.

In order for the board to have *control over* but be *free from* the complexity of staff operations and thus focus on strategic thinking, there needs to be clearly stated and agreed processes for keeping the board informed about the outcomes of staff effort – without encouraging board involvement. This balance is often difficult to achieve. While, individually, many board members will be interested to know about the details of day-to-day actions and events in the organisation, these are often, in themselves, of little relevance or use to the board in carrying out its governance responsibilities or doing its strategic thinking.

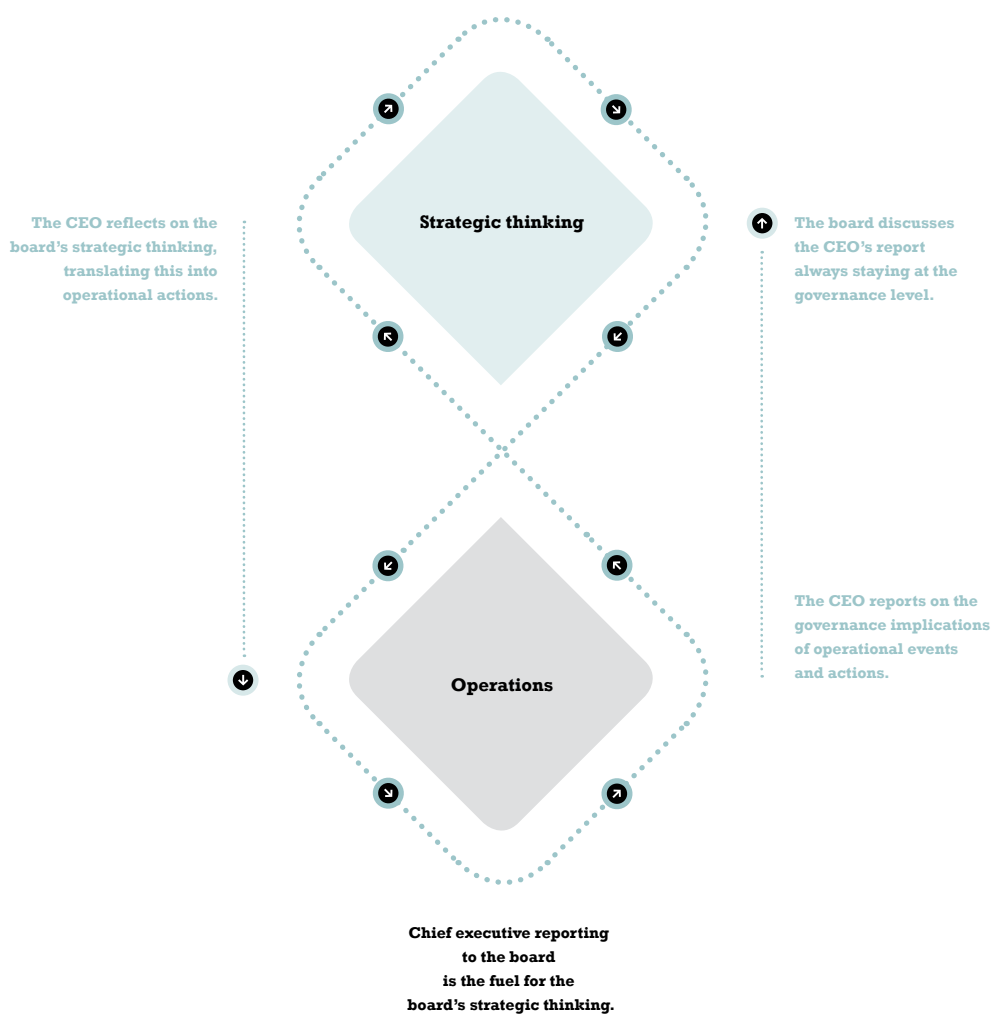
9.3

PROVIDING THE BOARD WITH THE RIGHT INFORMATION

What the board *should* know about is the governance implications of those actions and activities. Instead of merely reporting the actions, the chief executive should be interpreting and reporting on these in terms of the board's responsibilities and concerns. The following figure-of-eight diagram represents the flow of communication between the chief executive and the board. Events and activities occurring in the lower operational portion of the diagram are reported on by the chief executive in terms of their impact on the board's desired strategic results. For example, the chief executive might report on the implications of higher than expected staff turnover (an operational issue) for the achievement of planned results (an obvious board concern).

At the board meeting, represented by the upper portion of the diagram, the board discusses the implications of the chief executive's report, at all times staying in its governance role and thus keeping the debate at the strategic level. Outcomes of the board discussion are then translated into management or operational thinking by the chief executive and taken back into the operational arena to be implemented, evaluated and reported against at a future board meeting. For example, the board's desire for more improved stakeholder understanding of organisational objectives would be taken away by the chief executive and translated into various options for, say, more frequent communication with those stakeholders.

This type of interaction, with each party respecting the other's roles, facilitates an ongoing dialogue between the chief executive and the board around key strategic issues.



9.4 THE BOARD'S ORGANISATIONAL 'DASHBOARD'

With regard to board reports, board members often experience:

- overload – too much 'data' and not enough 'information'
- an inappropriate level of detail (both too much and too little information)
- poorly presented information which is difficult to interpret and assess for its significance because important information is 'buried' amongst much that has less materiality
- information which has a management rather than a governance perspective
- information which lacks an interpretive context (that explains why the information is being reported to the board; what should the board take from it, etc).

To avoid these types of problems and to make more productive use of board (and management) time, a useful concept is a board information 'dashboard'. In a car, the dashboard instruments give the driver a quick snapshot of the state of performance of the vehicle. They tell at a glance the speed at which the car is travelling (speedometer), how hard the engine is working (rev counter), how much fuel there is left (fuel gauge), how far the vehicle has travelled (trip meter), and so on.

Similarly, an arts board can use the equivalent of a 'dashboard' to determine which information it needs on its journey to a desired location. So, for example, it can travel at a safe speed (within available staff resources), avoid running out of gas (cash), track distance travelled (progress towards goals, milestones) and maintain reasonable fuel economy (operational efficiency).

Such dashboard measures should be presented so the important numbers can be easily interpreted for their meaning and significance. That way, the driver's attention is not unduly distracted from the road ahead. This means boards must identify the information that they need from staff so that they can adequately monitor and evaluate whether their organisation is on track to delivering on its purpose. Another thing we can draw from this analogy is that the dashboard information should, as far as possible, be future-focused so the board is not forced to steer by looking in the rear vision mirror. Traditionally, the information on which governing boards have focused has been backward looking, historical data. There is a need for more of

the type of information that will help it look to the future and anticipate both opportunities and challenges. The following questions may be helpful in developing a board's initial dashboard even though this tool will undoubtedly evolve considerably over time.

- What are the performance indicators that tell us most about whether this organisation is making progress?
- What are the most significant risks we face and what are the relevant performance indicators?
- For ease of understanding and interpretation, what are the best ways to display each of these indicators?
- What comparisons (e.g. current versus past periods, measure-to-measure ratios, etc.) would be most informative?
- What will constitute a sufficiently material divergence from expectations that it should be reported to the board?
- How frequently do we want to receive reports?

Each board will need to determine which dashboard 'dials' are likely to be of most relevance and usefulness to their organisation. An example that many in the arts sector might find relevant is a 'diversification of revenue' dial. If the board identified diversification of revenue sources as a major performance indicator (e.g. to spread the funding risk), it might use a simple chart to track the changing percentages of income by source on, say, a quarterly or six monthly basis. Another example acknowledges that an arts organisation is no different from any other organisation in the sense that it must remain financially solvent. The graph of the 'current ratio' in Section 11 demonstrates how presenting critical financial data in graphical form allows even members who are not financially literate to understand both the current state of play and the longer term trend.

9.5

THE CHIEF EXECUTIVE/BOARD CHAIR RELATIONSHIP

Effective monitoring and evaluation of organisational performance are key aspects of the board's overall strategic thinking process. One aim is to ensure that the rate of organisational learning exceeds the rate of change in the environment – in other words, it enables the board and chief executive to keep ahead of the play. This has been described by Ross Ashby as the *law of requisite variety* which stipulates that, for a system to preserve its integrity and survive, its rate of learning must at least match the rate of change in the environment.

DISCUSSION TOPICS

1. Has the board made a clear statement of the matters on which it must be kept informed?
2. Are these more focused on the achievement of results than on, for example, the volume of activity?
3. Does the board feel that it has its 'finger on the pulse' (i.e. does the board receive regular reports on important organisational performance indicators that are timely, accurate and easily understood)?
4. Do board members feel that they are part of a continuous learning process about organisational performance and the matters affecting that?



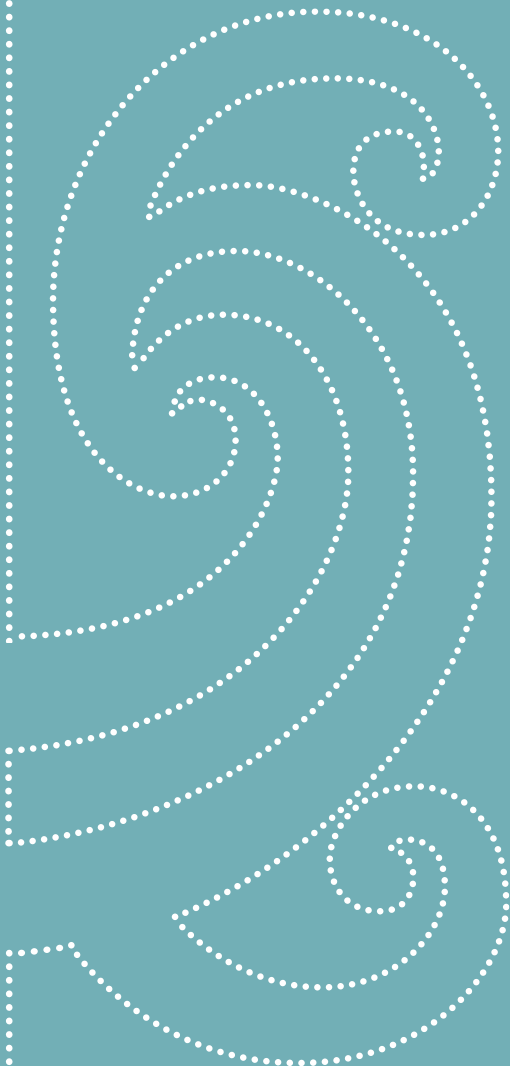
PHOTOGRAPHY BY ANNWYN TOBIN.
WWW.ANNWYNTOBIN.COM
CHRIST'S COLLEGE CHOIR PERFORMING AT THE
BIG SING, AUGUST 2008.

[CREDIT]

A STRATEGIC RISK MANAGEMENT FRAMEWORK

SECTION 10

EXAMPLES OF ORGANISATIONAL FAILURE IN THE ARTS SECTOR ARE, UNFORTUNATELY, NOT HARD TO FIND. OFTEN THIS HAS RESULTED FROM A BOARD FAILING TO IDENTIFY AND CHARACTERISE THE RISKS FACING THE ORGANISATION AND TO SEE THAT STRATEGICALLY IMPORTANT RISKS WERE MANAGED APPROPRIATELY AND EFFECTIVELY.



10.1 WHAT IS RISK?

Risks are uncertain future events that could impact on the organisation's ability to achieve its objectives.

There are events that your board cannot fully foresee that may make your organisation's tomorrow much different than it is today. Such events may happen suddenly and unexpectedly. Generally a risk encompasses both threats of losses and opportunities for gains. The challenge is to determine – in terms of your organisation's purpose – if the gains will outweigh the losses.

Risk is an essential and unavoidable component in any organisational situation. Every organisation, whether commercial or non-commercial, exists in the larger world, which changes continuously. Most organisations, by their very nature, actively seek change. The sought-after change might be the well-being of the creative personnel or the audiences that are the focus of the organisation's mission. Change brings risk,

but without change there can be no progress.

Most organisations, therefore, cannot do business without incurring some level of risk and must learn not only to tolerate, but to thrive on, a certain level of instability and unpredictability. Although there is a natural tendency to think of risk as protecting the organisation from something 'bad' – such as loss of reputation – a board that is very conservative (risk averse) can damage an organisation just as much as a board that has an over-lenient or reckless attitude.

Risk management is the process by which the board and the chief executive ensure that the organisation deals with this uncertainty to its best advantage.

Organisations face both internal and external risks. Internal risks are managed via the establishment of policies that address specific aspects of operational risks. Having established acceptable levels of risk and defined measures such as Limitations policy boundaries (see Section 8.3), the board should expect the chief executive to make all further decisions and take all further actions necessary to minimise the possible negative impacts and maximise the positive opportunities arising from risk-taking. Subsequent management reporting should provide assurance to the board that those risks with a greater probability of occurrence, and whose potential negative impact is high, are under close scrutiny and that there are appropriate control or mitigation mechanisms in place.

10.2 STRATEGIC RISK MANAGEMENT

Traditionally, the discipline of risk management has been devoted to addressing threats of accidental loss. In this context, the most that the process of risk management could ever accomplish was to reduce or eliminate losses from, say, accidents to art works or facilities. Another important perspective, however, is that of non-accidental risks. This would cover, for example, losses from poor programming judgements or from errors in forecasting audience numbers. It is also very important to consider the possibility of gain from risk.

As in other aspects of the board's job it is important to adopt a more broadly based and *strategic* approach. Strategic risk management embraces both possible gains and losses from risk. It seeks not only to counter all losses, both from accidents and from unfortunate business judgements, but also to seize opportunities for gains through organisational innovation and growth. Effective and strategic risk management is vital if your organisation is to be all it can be.

Section 7 emphasised the importance of the board establishing a clear sense of organisational direction and important deliverables. What a board expects the future to bring and how it prepares for its vision of the future greatly affect the amount of risk confronting the organisation it governs. For example, if a board has one set of very specific expectations and is unprepared for any other version of the future to unfold, it puts its organisation at great risk. Strategic risk management is about visualising a range of other future scenarios and having a Plan B, a Plan C and perhaps even a Plan D in place. This may lessen the likelihood of an unpleasant surprise for the organisation. It will certainly ensure that it is better prepared for a different eventuality whether negative or positive.

No board expects, for example, that its chief executive will be incapacitated but if it has not considered the possible consequences of something untoward happening, it would almost certainly be surprised and unable to respond appropriately if the worst were to happen. If your board has ensured that it is prepared for a broad range of potential future outcomes, it will face less uncertainty and less risk. If the chief executive was to suddenly become unavailable it may not lessen the surprise, but it would certainly reduce the impact. The same is equally, and possibly even more, true in regard to artistic product. What would happen, for example, if the overseas guest conductor of the orchestra failed to arrive, or if the lead opera singer was suddenly taken ill, or if the lead dancer broke their leg? In the visual arts sector, what would happen if a wharf strike prevented the unloading of a valuable international art collection? Few arts organisations can afford bad luck of this kind.

Even though most arts boards' thinking errs towards being over-optimistic there are many boards that are also ill-prepared to take advantage of windfall opportunities. For example, if your organisation had never prepared for the offer of a large donation from an unexpected source, when a potential benefactor did appear you may be unable to respond promptly or coherently. The benefactor may be forced to conclude that your board had no clear, inspiring plan to use the sum offered and that another cause or organisation would better be able to put the proffered donation to effective use. Some thoughtful long-range planning, even 'dreaming', should enable the board to visualise its future options to the point that the organisation could respond constructively and rapidly to an unexpected and generous offer.

A strategic approach to risk management is conspicuously proactive. It counters 'downside' risks by reducing the possibility of something unwanted happening (probability) and the impact (magnitude) of losses if it did, and by resourcing/financing recovery from these losses. It seizes 'upside' risks by searching for opportunities to more fully, more certainly and more efficiently achieve its mission and by developing plans to act on opportunities as they present themselves in the future.

There are five main reasons why a board needs to ensure that its organisation takes a strategic approach to risk management and that it is always well able to handle risk effectively and to advantage. These are outlined below:

- **TO COUNTER LOSSES** – this typically involves reducing the probability, magnitude or unpredictability of accidental losses. Techniques for reducing accidental losses usually involve either avoiding or modifying the activities that may generate accidental losses. Traditionally, risk management also involves putting in place financing arrangements that will assist recovery from accidental losses that cannot be prevented. This is often done by preparing the organisation to absorb the financial burden of possible losses itself, or by finding ways of sharing the possible burden with other organisations (e.g. by taking out insurance).
- **TO REDUCE UNCERTAINTY** – uncertainty can be reduced by gathering more data to improve understanding and predictions and by anticipating and preparing for a wider range of outcomes.

10.2 STRATEGIC RISK MANAGEMENT

- **TO TAKE ADVANTAGE OF OPPORTUNITIES** – organisational success is frequently characterised by innovation and the ability to see and take advantage of possibilities others may have overlooked. Strategic risk management not only helps in identifying opportunities for gain, but also better positions an organisation to seize those opportunities.
- **TO BE A GOOD CORPORATE CITIZEN** – organisations, like individuals, are good corporate citizens when they act according to, or beyond, community standards and expectations. Being a good citizen in this context is about behaving ethically and obeying the spirit as well as the letter of the law. When it consistently acts as a good corporate citizen an organisation tends to be less prone to liability losses (downside risks). It is also more likely to be presented with beneficial opportunities and to gain positive public support (upside risks).
- **TO FULFIL A WORTHWHILE PURPOSE** – not-for-profit arts organisations perform many functions in the community that neither governmental nor commercial enterprises could, or would wish to, perform. In return, both central and local government grant those organisations a variety of financial and other significant advantages that other types of enterprise do not enjoy (e.g. financial grants, tax free status, etc.).

10.3 CLARIFYING THE BOARD'S RESPONSIBILITY FOR RISK

Because, ultimately, the board is accountable for organisational performance, it must be particularly clear how much risk is acceptable in order to achieve the organisational outcomes that are considered worthwhile.

All too often boards implicitly assume that much of the risk facing their organisation is technical or operational and therefore the responsibility of management. While in most cases the board is not directly responsible for the operational management of the organisation, it does carry the ultimate accountability for the organisation's performance. At a minimum, therefore, the board should ensure that there is an ongoing process for identifying, evaluating and managing the risks faced by the organisation and it should regularly review this process and what it considers to be the most significant risks facing its organisation.

Among the various dimensions of the board's risk management job is the need to:

- **CHARACTERISE RISK** – ensuring that it has got the key risks facing the organisation in its sights and that it has a good understanding of their probability and potential impact
- Set the tone and influence the culture of risk management within the whole organisation. The challenge has been neatly summed up in the following quotation:

*The board's key role is to ensure that corporate management is continuously and effectively striving for above average performance, taking account of risk.*¹⁴

For example, is it a 'risk-taking' or 'risk-averse' organisation? Which types of risk are acceptable and which are not? What are the board's expectations of staff with respect to conduct and probity? Is there a clear policy that describes the desired risk culture, defines scope and responsibilities for managing risk, assesses resources and defines performance measures?

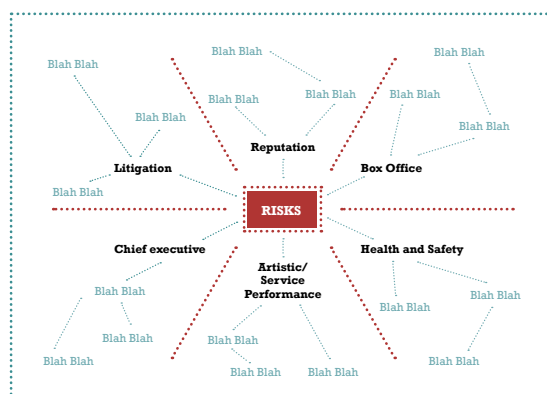
10.3 CLARIFYING THE BOARD'S RESPONSIBILITY FOR RISK

Ultimately the board is accountable for organisational performance. It must be clear how much risk is acceptable in order to achieve worthwhile rewards. It must, therefore, determine the appropriate risk 'appetite' or level of exposure for the organisation. To a significant extent this will reflect the purpose of the organisation. A theatre company established to nurture and promote new work, will have a different attitude to the risks involved in producing the first play of an unknown but talented playwright than a theatre company that typically produces the plays of well-established and commercially successful playwrights.

- Actively participate in major decisions affecting the organisation's risk profile or exposure; ensuring that important questions are addressed such as, should the risk be spread by working with another organisation or transferred through the use of funder/sponsor underwriting or insurance?
- Monitor the management of significant risks to reduce the likelihood of unwelcome surprises by, for example, receiving regular reports from management focusing on key performance and risk indicators, supplemented by audit and other internal and external reports.
- Satisfy itself that less significant risks are being actively managed, possibly by encouraging a wider adoption of risk management processes and techniques.
- Report annually to key stakeholders on the organisation's approach to risk management, with a description of the key elements of its processes and procedures.

To ensure that strategic risk management enjoys effective implementation these different facets of the board's role, the expression of its expectations and the delegation of its authority to management should be formally documented in policy as discussed in Section 6, creating a formal basis for accountability and an explicit framework for performance-monitoring.

A board should review its attitude and approach to risk regularly because the conditions that create risk are changing continuously. One exercise that a board can do on a regular basis (at least annually) is to brainstorm the various risks facing the organisation to create a risk map. The various elements identified are initially placed on a mind map type diagram. There are widely available computer software programs that can be used to help generate such a diagram but this can easily be done on a white board or by putting Post-It Notes on a wall.

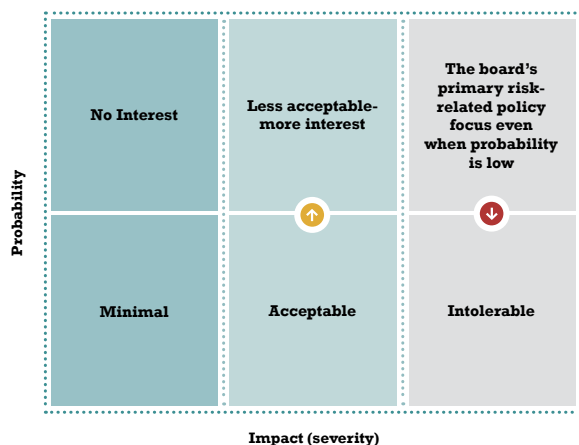


Each of the risks identified can then be assigned an assessment of the likelihood that the risk factor will occur and, if it does, what its potential impact could be. Where possible, it should be trying to control or mitigate those risks that have the greatest significance for the organisation. This should include even those risks that are beyond the organisation's ability to influence. In such cases the board should ensure that the organisation has a 'Plan B' to be prepared to respond quickly and appropriately to matters that are otherwise beyond its control.

Plotting each of these risk factors on a graph, as in the following diagram, can form a picture that helps the board to more readily see where its attention should be focused. The higher the potential impact, the greater the board's likely interest even if the probability is relatively low.

10.3 CLARIFYING THE BOARD'S RESPONSIBILITY FOR RISK

The Board's interest in Risk Factors



must generally attempt to achieve tough objectives which mean greater risk. The risk that remains depends on the level of control in place, as illustrated by the risk exposure matrix.

LEVEL OF RISK	LEVEL OF CONTROL		
	TIGHT	MEDIUM	LIGHT
HIGH	Medium	High	High
MEDIUM	Low	Medium	High
LOW	Low	Low	Medium

Exposure to risk (residual risk)

The following table illustrates another useful format for recording the board's discussion during this exercise.

Risk Factor (list)	Probability	Possible Impact	Adequacy of Response/Preparations
Audience apathy	Medium	Medium	Less than satisfactory
Tension between volunteers and professionals	High	High	Medium
Programming that is too 'safe'	Low	High	High
Lack of a shared vision	Medium	High	Poor
Etc, etc			

The board should regularly review the issues on the risk map and determine whether they are in the right positions on the graph. For example, has a 'cool' issue become 'warmer' (i.e. is it now more probable or would it have a bigger impact?) and whether new issues should be added and old ones deleted.

Many boards delegate this sort of exploration and monitoring to their chief executives and staff. There is no substitute, however, for the board thinking for itself (supported by management) about the organisation's risk environment. Because they have different responsibilities, board and staff perspectives may well be different.

The board should be conscious that, while risks can be managed through the operation of various types of controls, these will not always *eliminate* risk; any remaining risk is the organisation's 'exposure' to risk or its 'net' or 'residual' risk. There is a relationship between an organisation's objectives, risks and controls and its risk exposure. To deliver large benefits the organisation

It is important to recognise that improving control is not just about increasing the number of controls or the frequency with which they are operated, but is also achieved by designing and introducing better controls.

Increased control obviously comes at a cost:

- Direct costs – such as administrative staff and information systems.
- Opportunity costs – such as missed artistic growth opportunities or less entrepreneurship.

An organisation will not, therefore, want to deploy all the controls that might be available or possible when managing risks. Each arts organisation needs to determine its own overall 'risk exposure' and ensure that this fits with the board's agreed approach to risk.

FURTHER READING

AS/NZS 4360:2004 – a generic risk management framework that can be adopted by any organisation. More information is available on the Standards New Zealand web site www.standards.co.nz.

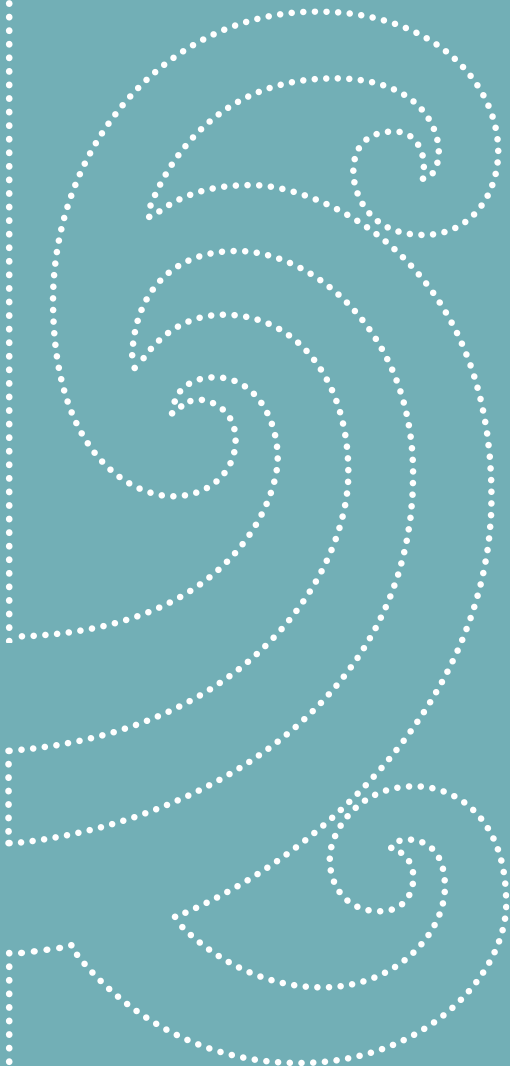
DISCUSSION TOPICS

1. Does the board systematically and regularly (at least annually) review the risks facing the organisation?
2. Has it clearly agreed and communicated the level of risk it is prepared to tolerate in relation to critical organisational performance factors?
3. Does it have clear policies in place that define boundaries within which the chief executive can operate without further reference to the board?
4. Is the board satisfied that there are contingency plans in place to deal with risks that cannot be controlled or mitigated?

THE BOARD'S FINANCIAL RESPONSIBILITIES

SECTION 11

**ONE OF THE MOST COMMON RISKS IDENTIFIED BY
GOVERNING BOARDS AROUND THE WORLD IS THAT CONCERNING
FINANCIAL RESOURCES – THE RISK OF NOT HAVING ENOUGH
MONEY TO FULFIL THEIR PURPOSE.**



11.0 THE BOARD'S FINANCIAL RESPONSIBILITIES

One of the most common risks identified by governing boards around the world is that concerning financial resources – the risk of not having enough money to fulfil their purpose. Research for this publication confirmed that arts boards in New Zealand devote a substantial part of their time and effort to financial oversight, although their approaches differ greatly.

In terms of risk management a board has a special responsibility to provide assurance of the financial integrity of the organisation. There is a tendency to rely heavily on those board members who have a particular financial and accounting expertise but *all* board members are accountable for financial stewardship, not just those members with a relevant formal qualification.

This accountability is best achieved by adopting a governance, rather than a management, perspective. Financial governance entails setting a financial policy framework that will preserve and enhance the financial health of the organisation *and* allow all board members, regardless of their level of financial training, to share in this critical and unavoidable responsibility.

Some aspects of financial governance might be dealt with in terms of prescribed targets and expectations (e.g. an operating result target). Other aspects of the board's financial governance are better expressed using the proscriptive or limitations format within the policy category Executive Limitations (see Section 8.3).

Such policies might address some or all of the following topics:

- chief executive expenditure authority
- budgeting/financial planning
- working capital
- net assets and reserves
- investments
- general guidelines for financial management/overall financial condition (revenue, costs, cash flow, liquidity, etc.)
- employee remuneration and benefits
- asset protection.

The board should require regular statements by the chief executive of compliance with the board's financial policies. Here are two examples of these types of financial governance policy.

BUDGETING /FINANCIAL PLANNING

Financial planning shall not deviate materially from the board's Ends policies and Key Results priorities, put the organisation at financial risk, or fail to be derived from a long-term plan. Accordingly, the chief executive shall not produce financial plans or budgets that:

1. Contain too little information to disclose planning assumptions, to allow separation of capital and operational items, or to enable effective projection of revenues, expenses and cash flow.
2. Plan to achieve a bottom line financial result materially different from that determined by the board.
3. Plan to use surplus funds in a manner inconsistent with the board's Reserves policy.
4. Will result in board-determined targets for financial ratios not being achieved (these ratios must be specified).
5. Fail to provide for the current and future capital requirements necessary to achieve key results and to protect assets.

11.0 THE BOARD'S FINANCIAL RESPONSIBILITIES

PROTECTION OF ASSETS

The chief executive shall not allow the organisation's assets to be unprotected, inadequately maintained or unnecessarily put at risk. Therefore the chief executive shall not:

1. Subject plant and equipment to unauthorised or improper use, wear and tear or insufficient maintenance.
2. Permit any unauthorised person to handle cash.
3. Process the receipt or disbursement of funds outside of controls acceptable to the duly appointed auditor.
4. Deposit funds in non-board-approved financial and other institutions.
5. Allow major assets to be insured for less than what is considered necessary for prudent risk management.
6. Fail to protect intellectual property, information, and files from loss, improper use, improper purposes, or significant damage.
7. Fail to ensure that there are appropriate and effective security systems in place to adequately safeguard against loss, damage or theft of organisation, staff, and patron property.
8. Fail to maintain an appropriate asset register.

In addition, standard financial reporting statements (e.g. Statement of Financial Performance, Statement of Financial Position) should be made available to the board at appropriate intervals (quarterly is sufficient for most purposes). Appropriate training should be provided so that all board members can understand and interpret these important documents. Financial reports to the board, wherever possible, should draw out vital measures of financial performance and display these graphically so all board members can assess the state of the organisation's finances at a glance.¹⁵

An example is shown in the following diagram. The 'current ratio' is a very basic but important measure of solvency risk. A board must always ensure that their organisation is not 'trading recklessly' (i.e. that its not incurring debts it may not be able to pay within normal terms of trade). Essentially the current ratio measures whether there is enough cash in the bank (or in some other relatively 'liquid' assets – such as receivables) to meet the organisation's current liabilities (bills payable, wages etc.). In this illustration the target level for the ratio is set at 1.5 (although many organisations would aim at a higher (i.e. more conservative) target of, say, 2.0). Ideally there would be an explicit board-stated limitation policy saying, in effect, that "the chief executive must not let the current ratio fall below

1:1.5". When the actual cover dropped below 1.5 the chief executive was no longer in compliance with the board's policy and could have been expected both to take remedial action and advise the board of the non-compliance. The measure in the subsequent months showed that the situation improved although not by much. This would be a 'red flag' for the board to watch this very closely. The numbers for the calculation of the ratio come out of the balance sheet which not all board members would be able to read with confidence. Pulling the numbers out (current assets and current liabilities), calculating the ratio and comparing the actual with the target, enables all board members, regardless of their level of financial literacy, to see at a glance how 'liquid' the organisation is.



As part of its accountability, a board is usually required to make an accurate and up-to-date statement of the organisation's finances each year to stakeholders in an annual report. In most arts organisations it is required that these accounts be externally audited.

If your board does not have access to professionally qualified personnel within the organisation (including board members themselves), external advice should be sought to ensure that it is setting appropriate financial performance standards and that it is monitoring those effectively. Remember, all board members, irrespective of their professional expertise are collectively accountable for the financial well-being of the organisation.

DISCUSSION TOPICS

1. Does the board depend unduly on the financial expertise of a small number of its members?
2. What steps has it taken to ensure that all members of the board are supported to meet their shared responsibility for effective financial governance of the organisation?
3. Does the board have in place delegations and other policies that clearly define financial management parameters?

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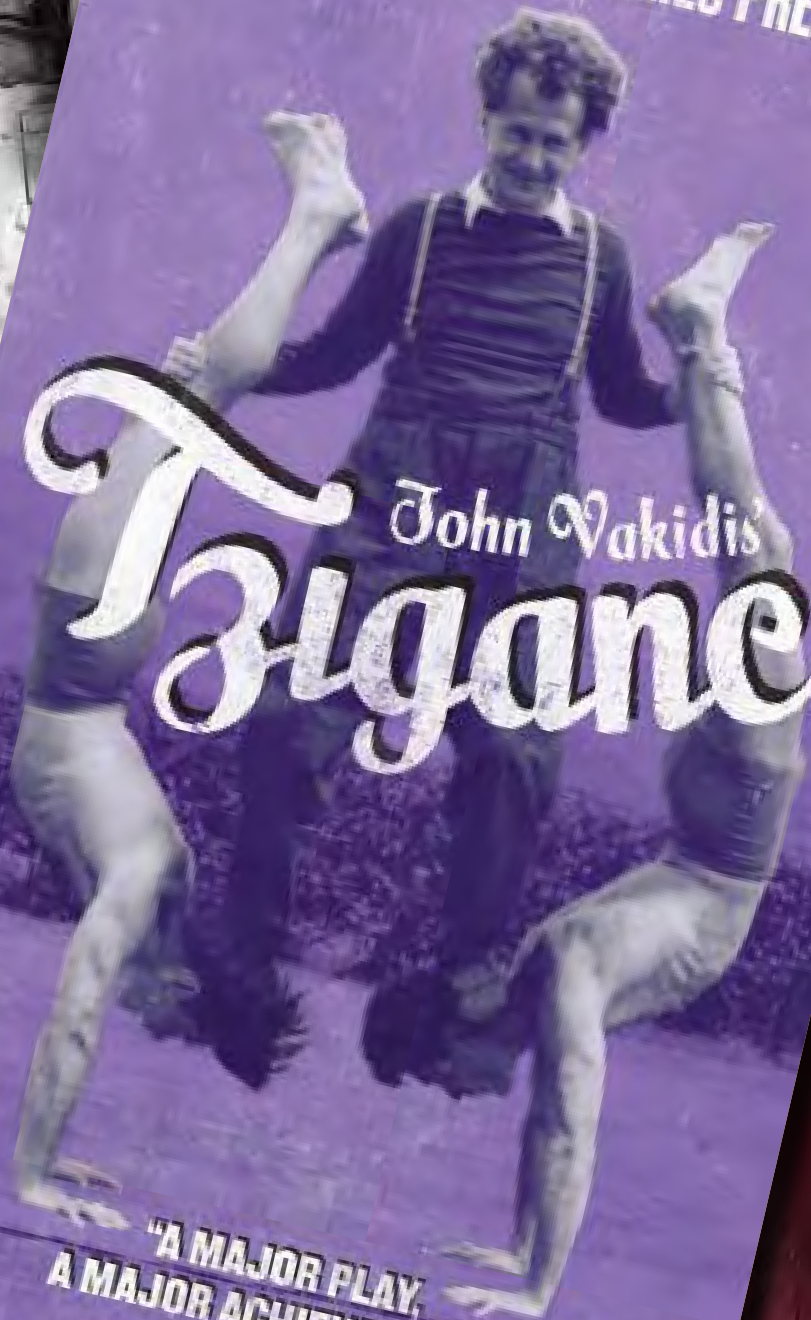
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FALEMALAMA
FROM SAMOA TO NIUE TO
NEW ZEALAND AND BACK AGAIN

NEW ZEALAND PLAY SERIES PRESENTS

John Vakidis
Zigane



"A MAJOR PLAY,
A MAJOR ACHIEVEMENT"
SUNDAY STAR TIMES

PLAY SERIES PRESENTS



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DIANNA FUEMANA
FALEMALAMA
FROM SAMOA TO NIUE
NEW ZEALAND AND BACK AGAIN

THE PACIFIC

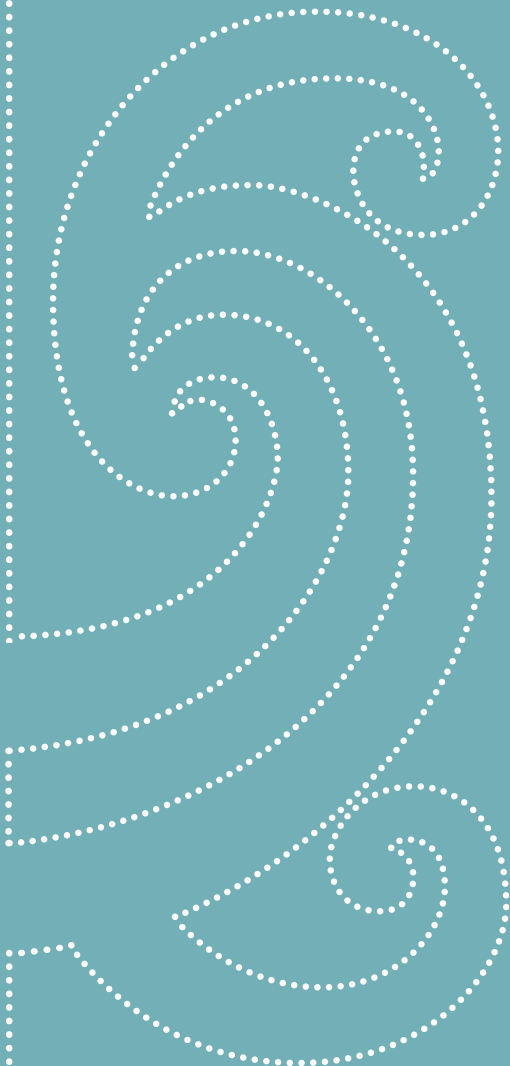
"FUEMANA'S ONE NIGHT OUT
AUCKLAND IS WONDERFULLY
WRITTEN" SYDNEY MORNING HERALD

PIECE OF NEW ZEALAND
LONG TIME" NZ HERALD 2002

THE MORE STUNNING
"PIECE OF NEW ZEALAND
LONG TIME" HERALD SUN 2004

THE BOARD'S OWN PROCESSES AND PRACTICES SECTION 12

THE BOARD IS RESPONSIBLE FOR THE QUALITY OF ITS OWN CONTRIBUTION TO ORGANISATIONAL PERFORMANCE. ITS CHALLENGE IS TO BE AT LEAST AS GOOD AT ITS OWN JOB AS IT EXPECTS THE CHIEF EXECUTIVE, ARTISTIC DIRECTOR AND OTHER STAFF TO BE AT THEIRS. IT MUST, THEREFORE, TAKE RESPONSIBILITY FOR THE DELIBERATE DESIGN OF ITS OWN PROCESSES AND PRACTICES.



12.0

THE BOARDS OWN PROCESSES AND PRACTICES

The board is responsible for the quality of its own contribution to organisational performance. Its challenge is to be at least as good at its own job as it expects the chief executive, artistic director and other staff to be at theirs. It must, therefore, take responsibility for the deliberate design of its own processes and practices.

Certain governance structures and processes are specified in an organisation's constitutional documentation. The board must comply with these

requirements. In addition the board should develop a range of policies defining board protocols and processes (Governance Process policies). As part of this the board should consider developing (and managing) its own budget, separate from the operational budget, for such matters as governance training, contracting external personnel (e.g. for independent auditing of aspects of organisation performance), attendance at conferences and seminars, etc.

12.1

BOARD MEMBERSHIP

Recruitment of members is a constant challenge for some arts boards but they should be wary of appointing members just to lend their good name to the organisation. The ability to provide time and attention are important prerequisites for board membership regardless of other attributes like, for example, being connected to possible funding sources.

Arts boards in New Zealand typically seek to recruit people with specialist skills onto their boards (e.g. lawyers, accountants and marketing and business people, etc.). While it is important for many arts organisations to gain access to this type of advice on a voluntary basis these are *functional* rather than *governance* skills.

As has been done in some arts organisations, it may be preferable to engage those functional skills other than by appointment to the board. What is needed around the board table is not a team of experts but an expert team. An arts board should be constantly wary of becoming an operational committee, rather than a team of governors giving direction and exercising strategic *oversight* of organisational purpose and performance.

This does not prevent board members working in the organisation but when they do so, they must be conscious of wearing a different (operational) 'hat' (see Section 12.6 – 'Board members as volunteers').

Whether board members are elected or appointed, every effort should be made to ensure that they bring a level of understanding about the purpose of the organisation and appropriate *governance* skills (or are given the opportunity to acquire these). Once 'on board' all new board members should receive a formal and thorough induction into the governance role of the board. This process is the responsibility of the board chairperson. This is helped by having a 'board manual'

containing appropriate documentation about the organisation, its work and its policies and procedures, providing a ready reference for board members throughout their term. Add a glossary of commonly used terms and acronyms that may be unfamiliar to new board members. If they are not already familiar with it, some new board members may also benefit from the opportunity to learn about the way the organisation itself works. This part of the induction process might be delegated to the chief executive or other staff members.

Even if only one board member is changing it might create the need for deliberate team-building. It is only after people are comfortable with each other and their roles and have together developed shared expectations about the way the board will go about its job that they will finally function well as a team. Every successful group attends to both its task and its social functions. If the board only attends to the business side of its work and the social dynamics are left to chance, the board will remain a group of individuals or a series of small cliques, not a synergistic team.

A good way to assist induction and the development of the board's teamwork is a board development workshop. To design and lead that workshop, seek the assistance of someone who not only understands group dynamics, but can help the board explore the various dimensions of its governance role and functionality.

12.2

CONFLICTS OF INTEREST

The expectations and actions of the board and its members set the moral tone for the organisation. A failure to manage board members' conflicts of interest undermines the moral authority of many boards. Ideally, potential conflicts should be minimised at the point when board members are appointed. Because that is not always possible each board should also have some form of Conflicts of Interest policy that describes expectations and the processes to be followed when a conflict is identified. Every board should require its members to declare any conflicts of interest relating to their duties as board members. This is an example of a simple conflicts of interest policy.

CONFLICTS OF INTEREST

The board places great importance on making clear any existing or potential conflicts of interest for its members. All such actual or potential conflicts of interest shall be declared by the member concerned and formally recorded in a Members' Interests Register. Accordingly:

1. Any business or personal matter which is, or could be, a conflict of interest involving the individual and his or her role and relationship with (name of organisation), must be declared and recorded in the register.
2. All such entries in the register shall be presented to the board and recorded in the minutes at the first board meeting following entry in the records.
3. Where a conflict of interest is identified and/or registered, the board member concerned shall not vote on any resolution relating to that conflict or issue.
4. The member shall remain in the room during any related discussion only with the board's approval.
5. All such occurrences will be recorded in the minutes.
6. When the chairperson is aware of a real or potential conflict of interest involving one or more board members, the chairperson must take whatever steps are necessary to ensure that the conflict is managed in an appropriate manner according to this policy.
7. Individual board members aware of a real or potential conflict of interest of another board member have a responsibility to bring this to the notice of the board.

8. Examples of conflicts of interest are when:

- (a) a board member, or his or her immediate family or business interests, stands to gain financially from any business dealings, programmes or services provided to (name of organisation)
- (b) a board member offers a professional service to (name of organisation)
- (c) a board member stands to gain personally or professionally from any insider knowledge if that knowledge is used for personal or professional advantage.

FURTHER READING

Graeme Nahkies and Terry Kilmister.

'The Successful Handling of Conflicts of Interest'.

Good Governance No. 62. March-April 2008.

12.3

BOARD MEETINGS

The productivity and effectiveness of a board is based on a clear understanding of both theory (for example, the role and responsibilities of the board as distinct from management) and practice (the pragmatic way in which the board actually goes about its work). Where these most obviously come together is in the conduct of the board meeting and this is where it can all go wrong. Board meetings *should* focus on governance responsibilities, such as purpose, policy-making and performance review, ahead of operational matters that have been delegated to others and other issues that have no *material* importance. In reality, it is all too easy for a board to become distracted by operational activities and miscellaneous trivia to which the board can add little or no value.

The meeting agenda is the crucial starting point. This is the board's work plan – its statement of what it thinks is important enough to justify consumption of its valuable time.

The board should always have control over its own meeting agenda. The chief executive might have input into the agenda, but a board meeting is not a management meeting. All matters on the agenda should reflect the board's governance interests and responsibilities. A particular focus of the board should be the development and monitoring of policy. As part of its 'duty of diligence' the board should ensure that its policies are being implemented as intended. There should be an expectation that the chief executive will report regularly to the board on the implementation of these policies.

A board meeting will, ideally, be the forum for extended, in-depth discussions about critical strategic issues. This discussion should include not only the full board and the chief executive but, where relevant, other staff and knowledgeable outsiders. Board meetings should provide ample opportunity for the board to ensure the ongoing relevance and appropriateness of the strategic results it has defined and other policies it has adopted.

The board must ensure that its decisions are properly taken and clearly stated so that it can speak with one voice, regardless of whether or not there is a dissenting minority. Remember that clearly stated board policies provide an agreed basis for action and establish a framework for delegation of operational responsibilities and for monitoring organisational performance.

Meetings should generally adopt a future, rather than a past, focus. It is easy to spend the greatest part of the board's meeting time analysing data about past performance and many do. While it is important to observe trends and understand what lessons can be learned from past efforts the board should not be steering the organisation by looking in the rear vision mirror. For that reason the earlier part of the meeting should focus on strategic issues and important decisions.

Monitoring reports and many procedural items (even confirmation of the minutes of the previous meeting) can be scheduled later in the meeting. These are (or should be) the subject of previously circulated written reports and can thus be taken as read if the meeting runs out of time.

Over a 12-month period, board meeting time allocation should reflect an appropriate balance between the need to ensure that the organisation is in compliance with statutory and contractual requirements and is attending to those matters that relate to improving organisational *performance*.

Board meetings should be managed so as to encourage a diversity of views and opinions and to ensure input from all board members without prejudicing effective and efficient decision-making. The board's culture should encourage openness and honesty of expression. Individuals should not be allowed to dominate board discussion and each person should be encouraged to develop active listening skills. Behaviour around the board table should be respectful and each person should be expected to disagree without being disagreeable. The chief executive and other senior staff should be expected to take an active part in the discussion. They should be encouraged to speak freely but not be allowed to dominate. The board meeting is where the board does its *work*. Staff have an important role to *support* the board's work, by providing good information, analysis and advice, but must respect the board's responsibility to *govern*.

The board should meet as often – and for as long – as it needs to carry out its governance duties. While many governing bodies meet every month this may not be necessary for effective governance. Boards should also be conscious of the demands frequent board meetings place on, often limited, staff resources.

Pay attention to good meeting management. Arts board members are often people with significant demands on their time. They will not want to be involved in meetings that waste their time dealing with matters that are of little consequence, of interest to or involving only a small proportion of board members or that should be left to the staff to deal with. The time a board spends together is its most precious (and limited) resource. Make sure it is used to best effect. At the end of each board meeting ask each member to answer this question – "did we make the best possible use of our time together today?" Use their answers to plan your next meeting and continuously improve your teamwork.

12.4

TYPICAL AGENDA DISTRACTIONS

There are some common reasons why board meetings are often unproductive which are easily avoided given sensitivity to them.

CONFIRMATION OF THE MINUTES

This is often treated by those who were not present at the last meeting as an opportunity to have the meeting replayed for their benefit. That may also be welcomed by anyone who was less than happy with decisions made previously. Beware of this as an opportunity to re-litigate. 'Matters arising' offers a similar opportunity. If the agenda is properly designed and reports are thorough there is no need for a 'matters arising' item. Keep these aspects of the meeting as brief and as formal as possible.

CORRESPONDENCE

As a general rule, only correspondence that has direct policy implications that the chief executive cannot deal with, or that is addressed to the board in relation to a board policy matter, should come before the board. When there is correspondence that the board needs to see, the correspondence it receives informs a purposeful policy discussion. An item of correspondence that deserves the board's attention should arguably be allocated its own place on the agenda.

STAFF REPORTS ABOUT OPERATIONAL MATTERS

Staff reports (presented through the chief executive to the board) targeted to board concerns are essential to inform the board and contribute to the conduct of its dialogue and debate. Reports that are not targeted to governance responsibilities take away from effective board performance. The principle is simple: the board meets to do board business. Reports should always – even if dealing with operational matters – be translated into a governance context, for instance, reporting against board policies and performance measures. That way the board can find governance relevance and use in the reports' content and keep its eye on the governance 'ball'.

FLYERS, ADVERTISING MATERIAL AND OTHER 'GUFF'

Because most boards are easily distracted, distributing inconsequential material for consideration at a board meeting simply compounds the problem. It diverts the board from its governance role into irrelevant discussions and meddling in the operational matters that most such material relates to. Some advertising material might be relevant. Advertising about director training or governance development opportunities, for example, relates to the board's commitment to its own professional development. When this is the case such material should be addressed in the context of a board paper with appropriate analysis and recommendations.

NON-POLICY-RELATED MATTERS

If the board accepts that its main focus should be on policy making and review, it follows that the board meeting agenda should reflect this. Matters that do not relate to policy in some way should not find their way onto the agenda. Each agenda item should be able to have a policy reference attached to it.¹⁶ Board members, as they examine the agenda and follow the progress of the meeting, should regularly ask themselves: "What is the policy relevance of this?" If discussion of other matters is necessary another forum can always be arranged.

REQUESTS FOR PERMISSION

Many chief executives are required to seek their board's permission to carry out this or that operational initiative. Such permission-seeking commonly results from one or more of several background conditions:

- the board is, in reality, the operational controller and the chief executive merely makes suggestions which require board approval
- the chief executive does not have the confidence to make his or her own operational decisions and 'delegates upwards' seeking board backing as an insurance policy
- the chief executive does not have a clear written delegation and thus is constantly unsure about the boundaries of freedom within which he or she can work and make operational decisions
- while there is a written delegation, the practice of checking with the board first is so ingrained into the board's and the chief executive's modus operandi that it just happens without any question or scrutiny.

¹⁶ 'Policy' in this context includes the strategic plan or similar documentation.

12.4 TYPICAL AGENDA DISTRACTIONS

Operational decision-making is the chief executive's responsibility. This is not to say, of course, that the wisdom and experience of individual directors should not be available to the chief executive. But the board meeting is neither the time nor the place for the chief executive to be taking soundings about the options available to him or her. Opportunities should be found outside the board meeting, at the chief executive's initiative, to explore how directors' wisdom or experience might assist the chief executive to discharge his or her responsibilities.

UNNECESSARY FINANCIAL REPORTS

Top of this list is the practice of approving payments that have already been made. Once commonplace, the habit of reviewing the 'cheque schedule' still dies hard in some organisations. As interesting as some of the content may be to some directors, such information is an example of

traditional reporting that in subject and analysis offers little assistance to the board in undertaking its governing role. Far better that, at the board meeting, it receives a fully analysed financial report from the chief executive comparing what has happened with what should have happened. More detailed financial data can always be made available to individual directors outside the board meeting if required.

PRESENTATIONS IRRELEVANT TO GOVERNANCE

As interesting as some directors may find it to listen to staff or outsider presentations, if there is no direct policy or broader governance relevance, such presentations should not take up precious board meeting time.

This is not to deny the value of briefings that help board members understand how the organisation operates, simply to say this is not a productive use of valuable board meeting time.

12.5 DEVELOP A LONGER TERM VIEW OF THE BOARD'S PRIORITIES

Once such 'clutter' is off the agenda, the board has a greater chance of focusing on stakeholder expectations and securing a sound and prosperous future for the organisation. To help ensure that a board pays attention to those matters that most require its attention it is particularly valuable to use an *annual* agenda.

An annual agenda defines well ahead of time the matters of strategic importance on which the board's time and attention should be focused. The equivalent of an annual work programme, this protects the board from meandering from one meeting to the next reacting to whatever has just come up.

An annual agenda has two components: the tasks and topics the board *must* address (e.g. because of legal or contractual obligations) and those matters that are *discretionary* (e.g. most policy and strategic issues) but which go to the heart of effective board leadership. To develop such an agenda a board might brainstorm all of its significant events and duties to be attended to in the coming year, allocating a date for each of these to be addressed. Typical items might include:

- preparation for the Annual General Meeting (AGM)
- the chief executive's performance appraisal cycle and key dates
- board performance review
- financial reporting
- an annual review of organisational strategy
- designated dialogue sessions on particular strategic issues

- consultation with key stakeholders
- meeting with the external auditor
- committee reporting dates, e.g. the audit committee
- signing off the annual report
- the policy review schedule.

And so on, including dates for significant events specific to the organisation. Then it should identify, so far as it can, the crucial strategic and policy issues that it should get on top of during the next 6-12 months. It is possible that the board may need to prioritise this second category of topics so that it can pay proper attention to those that are most important.

Both groups of agenda items can then be scheduled into a board work plan that determines well ahead of specific meetings what will be considered at each meeting.

Rather than leaving these matters to chance, or forcing the chief executive to prompt the board to do its own job, an annual agenda assists the board to think through and take control of its own business. Such a longer-term agenda ensures that the board is committed to addressing those matters that are essential for effective governance. When this is done, matters requiring board consideration and leadership are less likely to be crowded off the agenda by attention-grabbing issues which are often urgent, but hardly important. Scheduling ahead of time in this way does not prevent the inclusion of a wide range of other matters on a month-by-month basis, as required, or as appropriate.

12.5 DEVELOP A LONGER TERM VIEW OF THE BOARD'S PRIORITIES

A useful tool that can be used by any board to help develop its ability to create an annual agenda is the following 'time-use matrix'. The best way to use this is to divide the board into several small groups and ask each to try and agree what percentage of the board's total time is spent in each of the categories at a typical meeting.

Just having the discussion will be the catalyst for a useful conversation about just what is an *important* use of board time. How much of what the board usually deals with is *urgent*, but not really important. How much is neither important nor urgent? Over time the board should aim to spend an increasing proportion of its time on matters that are important but not urgent (e.g. environmental monitoring, strategic thinking, policy-making, relationship-building, risk characterisation,

Important and Urgent	Important and Not Urgent
Not Important and Urgent	Not Important and Not Urgent

performance review and development, etc.). Scheduling these into an annual agenda increases the sense of urgency about matters like these that typically have no deadlines attached to them.

12.6 BOARD COMMITTEES

An important structural issue that has a great deal to do with the quality of governance in the sector is the role and contribution of board committees. It is common practice for governing boards to establish committees to assist them in aspects of their work. Unfortunately, unless used effectively, board committees can often fragment the governance process. This is because a board with too many committees is like a machine that has too many parts – it breaks down more and is harder to repair. This is particularly because committee work tends to fragment board members' sense of the board as a whole and focuses them on particular, relatively narrow aspects of the board's responsibilities. Those who are not members of a particular committee can feel excluded and in the dark. Worse, they can have a diminished sense of responsibility for the conclusions of committees of which they are not a member. In order to avoid the inevitable sense of duplication, boards by and large feel obliged to accept ('rubber stamp') committee recommendations. This increases the risks faced by the board as a whole – decisions are not really board decisions, but committee decisions.

The arguments raised in favour of committees are often directed at solving problems that would be better dealt with directly. For example:

COMMITTEES ARE NEEDED BECAUSE OF THE BOARD'S SIZE.

When boards become larger than seven or eight members it becomes more difficult to address collectively, and be decisive about, problematic issues. If a board is of such a size that it is considered necessary to constitute committees (especially so-called 'executive committees') to enable it to do its work properly, it is the board's excessive size that is the problem.

COMMITTEES ARE NEEDED BECAUSE OF THE AMOUNT OF WORK NEEDED TO BE DONE.

What is the real governance work that needs to be done? In smaller organisations board members may need to assist with the operational activities of the organisation because there is simply not the paid staff or other resources to do what has to be done. When committees are set up to help in such situations, however, it seldom has much to do with the board's *governance* responsibilities. Board committees should not be confused with active work-groups, which perform basic organisation functions and whose membership often includes other volunteers and available staff as well as board members.

When it is no longer necessary for board members to act as unpaid staff it pays to be aware that there is potential to create duplication and confuse accountabilities with staff now employed to do that work. A typical example is when the board 'treasurer' continues to report to the board on the organisation's financial affairs when financial management has been delegated to the chief executive who, in turn employs finance professionals.

12.6 BOARD COMMITTEES

COMMITTEES ARE NEEDED TO OVERCOME DIFFICULTIES RESULTING FROM POOR BOARD-LEVEL PROCESS.

If governance processes are considered poor at the full board level it is almost certain that they are just as poor and probably worse at the committee level. The solution to this lies in the board's own hands. For example, boards should consider whether they have:

- delegated sufficiently to their chief executives (short of jeopardising the board's own accountability for organisational performance and conduct). Delegation, with rigorous performance expectations and review, should be pushed to the limit
- a clear sense of their own role and responsibilities (preferably well documented) so that they can pull back from low-level operational activities that simply crowd out strategic direction giving
- ensured that any committees or task forces are established only to do work that is needed for governance decisions. Useful work for board committees is pre-board work. A committee may, for example, explore the development and consideration of alternative scenarios, or undertake preparatory work on policy alternatives to ensure that sufficient information is available for the board as a whole to consider, debate and then make an intelligent decision with. In this process the committee and board jobs are sequential and separate. Such work would tend not to require 'standing', or permanent committees, but more of a 'task force' type of approach
- ensured that board committees may not speak for the board as a whole (protecting the 'one voice' principle) unless they have been formally requested to and this does not conflict with authority delegated to the chief executive)

- ensured that committees do not exercise authority over staff. The chief executive works for the board as a whole and cannot be expected to obtain the approval of a committee before an executive action
- ensured that committees do not overly identify with particular organisational functions or parts. Many board committees neatly and deliberately parallel the chief executive's organisational structure. Boards should do nothing which would encourage their committees to think that they have their own piece of the chief executive's organisation to direct themselves. Where, for example, committees focus on the oversight of certain operational activities (marketing, programme, property management, etc.), these can very easily cut across or undermine the chief executive's responsibilities.

A judgement about the establishment of operational or project committees should be left with the chief executive who may well set up committees of his or her own. These could, and often should, involve board members who have special knowledge or who, in addition to their governance role, are also willing to work on the operational side of the organisation. In a number of arts boards, however, these two roles (and the accompanying accountabilities) have become confused. This is commented on further in the next section.

The board's *own* job description should be articulated before *any* committee responsibilities are defined. It should not assume there is a need for any committee. Committees that have been thought to be vitally important in the past may be unnecessary and even detrimental. That does not mean there is not a role for board committees. Two examples of committees that *do* help a board do its work are: one that deals with audit and risk management and one that has responsibility to ensure that the board has the membership it needs.

In summary, the board should only establish committees that are essential to doing its *own* work. Board committees should never become involved in tasks that are properly the domain of the chief executive or staff. Following on from the board's own job description, all board committees should have clear terms of reference defining their roles, expected outputs, boundaries of authority, reporting requirements and membership particulars. They should also have a limited lifespan, to force a regular review of the value of their achievements and the need for their continued existence.

12.7

THE ROLE OF THE CHAIRPERSON

The most important single factor in achieving (or not) a high standard of governance in arts organisations is the effectiveness of the chair. The chair sets the tone of the board and his or her primary role is to provide assurance of the board's governance integrity via the effective management of governance processes. As a secondary responsibility the chair may also represent the board and its policies outside the organisation.

The chair is bound by the board's governance policies and thus has no authority to unilaterally alter, amend or ignore the board's policies. The chair is not the 'boss' of the board. The concept of 'servant leadership' is a more appropriate way of thinking about this role. While the chair may delegate certain aspects of his or her authority, he or she remains accountable for it.

AN EFFECTIVE CHAIR IS THE CHAIRPERSON, NOT THE OCCASIONAL CHIEF EXECUTIVE.

To hold the chief executive to account for carrying out this key role, chairs should refrain from stepping over into decisions and responsibilities the board has delegated to the chief executive. Chairs that meet regularly with their chief executive can easily find themselves becoming the chief executive's boss or manager, issuing instructions and providing 'permission'. Even though effective liaison between the two is important, any close working relationship between the chairperson and the chief executive should not usurp the board's collective responsibility as the chief executive's employer.

THE CHAIRPERSON SHOULD BE MORE OF A CONDUCTOR OR FACILITATOR AND LESS OF A CONTROLLER.

Because boards, for the most part, are made up of mature, self-directed adults, a chairperson should not expect to have to 'control' his or her board. The most important aspect of the role is to lead a process that gets the best out of board members enabling high quality decisions to be made. A controlling or highly directive chairperson often creates the circumstances that require controlling. For example, many board members will resist or rebel when faced with a dominating or domineering chair. In contrast, a chair who is more a facilitator or conductor uses his or her process and relationship management skills to draw the best from the individuals and the group. This type of chair is a consensus builder who skilfully links individuals' strengths and experience, guiding the group towards good outcomes.

THE CHAIRPERSON IS ALSO A BOARD MEMBER.

A challenge facing all chairs is to know when and how to contribute their personal opinions and advice to influence to the substance as well as the process of the board's dialogue. Chairs who manage this challenge effectively often do so by affirming other board members' opinions or points of view to register their own point of view without it also carrying the weight and authority of the chair. Because of the authority accompanying the role, taking a strong personal stand on issues from the chair often discourages other board members from openly voicing a different point of view.

THE CHAIRPERSON SHOULD MAKE SURE THE DESIGN OF THE AGENDA LIES WITH THE BOARD.

Board meetings are for board members to address governance matters not to be a forum for discussion of management matters. When the full board designs its own work-plan and translates this into an annual agenda (see Section 12.5), a board is less likely to find itself distracted by operational detail or sidelined doing little more than reacting passively to management initiatives. Certainly the chief executive should have an input to the agenda design but the process should be led by the chairperson acting on behalf of the board.

THE CHAIRPERSON SHOULD ENCOURAGE OPEN DIALOGUE, NOT DEBATE.

Debate is premised on one side being wrong and the other right. It is a contest that often becomes highly personalised. Debate produces win-lose outcomes. Dialogue, by contrast is a collaboration. Individual contributions are subjected to close scrutiny and testing; the purpose of this is to produce deeper understanding and improved decision making. Effective boardroom dialogue makes room for both directors and management to freely express their views, opinions and positions knowing that these will form part of the overall mix leading to the best possible outcome. Dialogue produces win-win outcomes.

THE CHAIRPERSON SHOULD NOT ALLOW INDIVIDUALS OR A SUB-GROUP TO DOMINATE THE MEETING.

When a board comprises a mix of assertive contributors and others that are less active contributors, it is easy to allow the former to dominate in the interests of efficiency. However, the potential of quieter or less articulate directors can easily be underestimated. They are often capable of asking the 'naively intelligent' or 'dumb' question that draws the board's attention to a fundamental flaw in an argument or to an important matter that has been overlooked. Just because a director is less eager (or less able) to jump into the discussion does not mean that he/she is a poor thinker or has no opinion. A good chair sees beyond over- or under-assertiveness and knows how to draw out from each director their special contribution.

12.8

BOARD PERFORMANCE EVALUATION

Boards in the arts sector are mostly comprised of 'volunteers' rather than paid directors and for that reason there is a widespread reluctance to expect too much of board members' contributions to board effectiveness. This is a dangerous and false premise. The challenges faced by arts organisations to survive, let alone thrive in this country, surely demands the highest possible standards of governance performance and effectiveness, both group and individual. Board members who bring nothing but good intentions to the board table are a luxury few arts organisations can afford. High performing boards experience a 'virtuous cycle'. They are far more attractive to prospective new board members and do not have difficulty attracting and retaining the capabilities they need. Consequently they further improve their effectiveness and become even more attractive.

Also, not unreasonably, there is an increasing trend for funders and sponsors to seek evidence of effective governance in the organisations they are asked to support to provide assurance that their contributions will be used to best effect. This starts with the board having a clear job description and a shared concept of what standards it should set for its own and its individual members' performance. So long as a board expects a high, professional standard of performance from management and those delivering the artistic or cultural product of the organisation it should expect no lower standard of performance from itself and its members. Therefore, it should set governance performance expectations and review its achievement of these regularly – at least annually. The purpose of any such evaluation is to identify opportunities for the board and individual board members to improve their governance performance over time.

Evaluation of the board and, ideally, individual members as well, should be against objective, pre-agreed criteria, preferably derived from the board's own job description and other governance policies. One policy, for example, that can be very useful in providing an appropriate set of performance expectations is a governing style policy.

GOVERNING STYLE

In its governance processes the board will:

1. Focus on the future, avoiding being unduly preoccupied with the past and the present.
2. Look beyond the boundaries of the organisation avoiding being preoccupied with internal concerns.
3. Be proactive rather than reactive.
4. Encourage the expression of a diversity of views and opinions.
5. Ensure its time is spent on strategic leadership rather than administrative detail.
6. Cultivate a sense of group responsibility making collective rather than individual decisions.
7. Ensure there is a clear distinction between governance (board) and operational (chief executive, artistic director, staff and volunteer) roles.

Ideally, the annual evaluation process should be conducted on behalf of the board by someone who can independently, professionally and confidentially collect and collate individual board members' views on the performance of the board. That person would collate that information and feed it back to the board, facilitating a discussion of the board's strengths and weaknesses and helping the board to develop a programme for improving its effectiveness.

An independently conducted process is even more important where the evaluation process extends, as it should, to the contribution of individual board members.

Sample board effectiveness review questions can be obtained from a number of sources but, ideally, the process and format should be tailored to the specific board concerned. The type of questions such a review might address is illustrated on the next two pages.

12.9 SUCCESSION PLANNING

To maintain vitality and environmental adaptation, a board's membership must be regularly replenished with new board members who bring renewed energy and fresh perspectives and ideas. This is made easier if there are term limits to serving on the board.¹⁷

A systematic board evaluation process like that referred to in the previous section lends itself to integration with a deliberate process of board succession planning. A simple tool that can be used is a 'board skills' matrix that assesses current board members against the skills and experience profile the board considers is needed to enable it to meet the challenges facing the organisation. This can be thought of as a 'gap analysis': what gaps in capability do we have and what sort of people should we look to recruit?

Each board should, therefore, have a process for succession planning that addresses the selection and replacement of board members whether elected or appointed, and for office holders like the chairperson. This does not necessarily mean identifying named individuals and or 'lining up' particular individuals. In fact, such an approach may be quite contrary to the values and democratic process within an organisation. It may even create distrust if there was a sense that the board was trying to manipulate the process to populate the board with its own acquaintances.

Nevertheless, there are advantages all round if those appointing or electing new board members are kept well informed by their board about its strengths and weaknesses, the challenges it is facing, and the board's thinking about the type of skills and experience it thinks would be the most useful.

Not every board will be able to immediately enlist the services of the people it has identified who might be elected or appointed if they were available. In some other sectors (e.g. sport and recreation) organisations have found effective ways to engage well qualified people in the governance process who are not (yet) willing or available to join the board. In one national sports organisation, for example, a 'chair's group' is convened once or twice a year to bring together potential future governors of the organisation. The purpose is to have these people contribute to the governance 'brains trust' and, at the same time, to give them a taste of the governance role. This will hopefully encourage them to become part of a pool of potential future board members.

The bottom line here is that the board should not leave its future membership to chance. It owes to its stakeholders good stewardship and that includes a succession process that ensures the organisation's fate is in competent and well motivated hands.

FURTHER READING:

JOHN CARVER. *Board Self-assessment*. CarverGuide No. 8. San Francisco. Jossey-Bass. 1997.

TERRY KILMISTER and GRAEME NAHKIES. 'Developing an Annual Agenda'. *Good Governance* No. 11. 4–7. September/October 1999.

GRAEME NAHKIES and TERRY KILMISTER. 'For Better Board Meetings: Turn Your Agenda Upside Down!' *Good Governance* No. 47. September/October 2005.

GRAEME NAHKIES and TERRY KILMISTER. 'Reviewing the Board's Performance'. *Good Governance* No. 7. January/February 1999.

PETER SZANTON. *Evaluation and the Nonprofit Board*. Washington DC. National Center for Nonprofit Boards Governance Series No. 10. 1998.

DISCUSSION TOPICS

1. Does the board make good use of its meeting time, ensuring that its focus is on topics that are important and constitute a worthwhile use of the board's time?
2. Does the board design its own agenda, preferably on a longer-term, annual basis?
3. Does the board set standards for its own performance and assess itself against those expectations at least annually?
4. Is this linked to a systematic success planning process?
5. Are there clear expectations for the performance of the chairperson?
6. Is the work done in committees (if any) focused on the board's governance responsibilities or does this relate more to operational functions?

¹⁷There is no right answer to how long someone should serve on a board. However, experience and observation would suggest that individuals should be able to realise the greater part of their potential to contribute within 10 years. Longer service than that may create a dependency on the long serving individual and quite possibly discourage potential board members from stepping up.

SAMPLE BOARD EVALUATION FORM¹⁸

	Totally agree	Agree	Disagree	Totally Disagree
1. Board members have the skills and experience needed to provide effective governance of this organisation.	1	2	3	4
2. The board's standards of achievement in governance are as high as it expects of the organisation's artistic achievement.	1	2	3	4
	Regularly	Occasionally	Never	
3. The board reviews its governance performance.	1	2	3	
4. The board undertakes activities designed to improve its own governance performance.	1	2	3	
	Totally agree	Agree	Disagree	Totally Disagree
5. The board has adopted explicit statements that spell out such matters as the organisation's purpose, values, strategic direction and priorities.	1	2	3	4
6. The board consults to understand their perspectives and to obtain their opinions about the organisation's direction and performance with: (a) 'owners' ¹⁹ (b) other key stakeholders (e.g. sponsors, funders).	1	2	3	4
7. The board has a clear understanding of the part it must play in the success of the organisation.	1	2	3	4
8. The board has adopted policies that spell out its own role and responsibilities, and define how it will operate (e.g. job description, code of conduct, etc).	1	2	3	4
9. The board has clearly expressed the key outcomes or results it expects the organisation to achieve.	1	2	3	4
10. The board formally and effectively assesses and evaluates the risks facing the organisation.	1	2	3	4
11. The chief executive's compliance with the board's expectations and policies is monitored regularly.	1	2	3	4
12. The board has clear criteria for deciding which matters justify its time and attention.	1	2	3	4
13. The board has a comprehensive orientation programme that assists new board members to become full contributors as soon as possible.	1	2	3	4
14. Board meetings focus on longer-term policy and strategic issues.	1	2	3	4
15. The board provides proactive leadership and direction to the organisation.	1	2	3	4
16. Board meetings are conducted so that each member is able to share fully in discussion and decision-making.	1	2	3	4
17. Conflicting views within the board are aired openly and dealt with effectively.	1	2	3	4
18. In board deliberations members focus on the interests of the organisation as a whole.	1	2	3	4

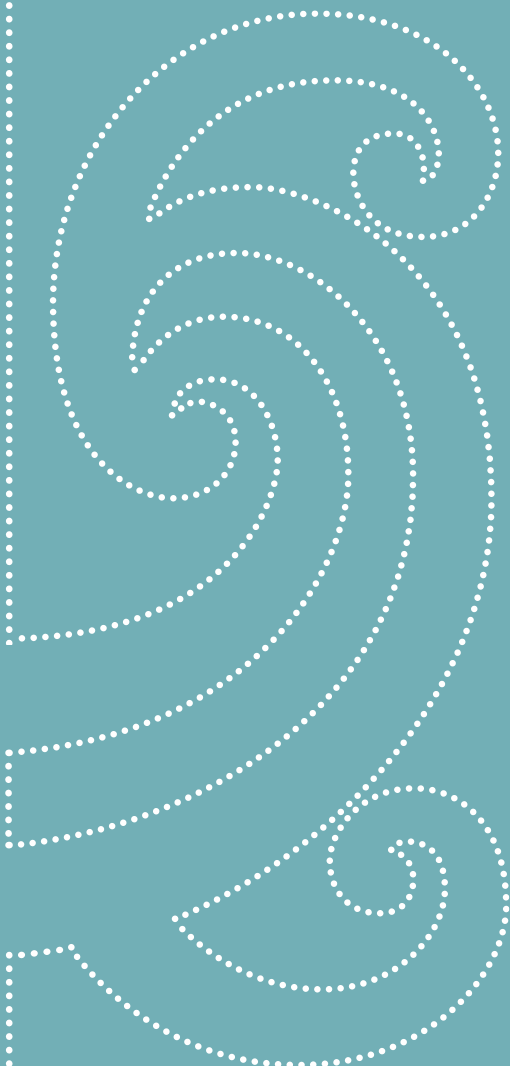
	Totally agree	Agree	Disagree	Totally Disagree
19. Board members leave meetings with a collective sense of achievement.	1	2	3	4
20. The difference between governance and management/ artistic direction, roles and responsibilities is clear.	1	2	3	4
21. The board has a clear idea of what information it needs.	1	2	3	4
22. The information received by the board is in a form that allows all board members to fully comprehend the organisation's situation and performance.	1	2	3	4
23. The board has explicitly stated its performance expectations of the chief executive (and any other staff appointed directly by the board).	1	2	3	4
24. The board conducts a formal performance evaluation of the chief executive and any other staff it appoints directly at least once per year.	1	2	3	4
25. Once policies and strategic direction are agreed, the board leaves the chief executive and staff to go about their business free from intrusion or interference.	1	2	3	4

¹⁸ This is by no means a complete survey but should provide a starting point for a board which wishes to start a review process. For boards that wish to extend their assessment to other governance effectiveness variables may find the best practice guide in *Good Governance* No. 11 (September–October 1999) useful.

¹⁹ The term 'owners' means shareholders, members, 'parent' organisations or others who may be considered to have an ownership interest even if morally rather than legally.

RESOURCE MATERIALS SECTION 13

THE FOLLOWING BOOKS, PERIODICALS AND WEB SITES ARE SUGGESTED AS **STARTING POINTS** FOR THOSE WHO WISH TO STUDY THE PROCESS OF GOVERNANCE IN MORE DEPTH. MANY OF THE ISSUES FACING ARTS BOARDS ARE SIMILAR TO THOSE HAVING TO BE ADDRESSED BY GOVERNING BOARDS IN OTHER SECTORS, COMMERCIAL, GOVERNMENTAL AND NOT-FOR-PROFIT.



13.1 BOOKS

Since the first edition of *Getting on Board* there has been a profusion of new publications on corporate governance relating to both the commercial and not-for-profit sectors. The following list retains many listed in the original publication and new entries. Some of the older publications may not be so easy to access but are still recommended if obtainable.

BOSCH, HENRY.

The Director at Risk: Accountability in the Boardroom.
Melbourne: Pitman Publishing, 1995.
ISBN 0-7299-0325-7.

Many recent books on corporate governance had their genesis in the growing concern of directors around the world to protect themselves. A very experienced executive and company director, Bosch explores the demands on directors to apply more diligence and skill than was historically expected and suggests a variety of very practical ways in which this can be done.

BROWN, JIM.

The Imperfect Board Member: Discovering the Seven Disciplines of Governance Excellence.
San Francisco: Jossey-Bass Publishers, 2006.
ISBN 10-07879-8610-0.

One of the best and most readable introductions to what good governance is all about. Particularly useful in distinguishing roles and responsibilities – the different roles people play in the type of organisations that are the focus of this publication.

CARTER, COLIN B. AND LORSCH, JAY W.

Back to the Drawing Board.
Boston: Harvard Business School Press, 2004.
ISBN 1-57851-776-1.

Argues strongly for the board to take control of its job design. A commercial company orientation does not get in the way of the provision of advice that would serve most arts boards very well.

CARVER, JOHN.

Boards That Make a Difference.
San Francisco: Jossey-Bass Publishers, 2006.
ISBN 10-0787976164.

The third edition of Carver's original exploration of board effectiveness issues and the description of his Policy Governance® model. A good discussion of typical boardroom challenges.

CARVER, JOHN AND MIRIAM M.

Reinventing Your Board.
San Francisco: Jossey-Bass Publishers, 2006.
ISBN 10-0787981818.

This revised edition is a practical, step-by-step guide for the implementation of John Carver's Policy Governance® model. The Carvers provide practical examples of the model at work and a set of model policies.

CARVER, JOHN AND OLIVER, CAROLINE.

Corporate Boards that Create Value: Governing Company Performance from the Boardroom.
San Francisco: Jossey-Bass Publishers, 2002.
ISBN 0-7879-6114-0.

This jointly written Carver publication focuses on the application of policy governance concepts to the commercial sector. It is perhaps an even more useful book than *Reinventing Your Board* and some of the basic policy governance concepts are easier to follow.

13.1 BOOKS

**CHAIT, RICHARD P; HOLLAND, THOMAS P.
AND HOLLAND, BARBARA E.**

Improving the Performance of Governing Boards.
American Council on Education.
Phoenix, Arizona: Oryx Press, 1996.
ISBN 1-57356-037-5.

Based primarily on an in-depth study of boards in tertiary education, this book provides an analysis of boardroom performance and suggests developmental approaches. Of particular interest, and seldom addressed by other authors, is a discussion of effective ways of overcoming resistance to board performance development initiatives. The authors offer a very practical and widely applicable analysis of boardroom performance issues.

**CHAIT, RICHARD P; RYAN, WILLIAM P.
AND TAYLOR, BARBARA E.**

*Governance as Leadership: Reframing the
Work of Nonprofit Boards.*
New Jersey: Wiley, 2004.
ISBN 10-0471684201.

Informed by theories that have transformed the practice of organisational leadership, this book sheds new light on the traditional fiduciary and strategic work of the board. It is most useful for introducing a critical third dimension of effective trusteeship: *generative governance*.

CHARAN, RAM.

*Boards at Work: How Corporate Boards Create
Competitive Advantage.*
San Francisco: Jossey-Bass Publishers, 1998.
ISBN 0-7879-1060-0.

Do you want to change the way your board works? Packed with insights into the dynamics of how boards operate, the central theme of the book is an exploration of the question: *How can organisations unlock the intellectual power of the board?* Charan takes a comprehensive and pragmatic look at how boards can leverage their members' collective knowledge and judgement through open, candid discussion.

CHARAN, RAM AND KENNY, ROGER.

E-Board Strategies: How to Survive and Win.
New York: Boardroom Consultants, 2000.
ISBN 0-615-11524-1.

This is a very good book about small 'activist' boards. It has a commercial focus but is useful across many situations. It has relevance for small start-up cultural ventures.

FLETCHER, KATHLEEN.

The Policy Sampler: A Resource for Nonprofit Boards.
Washington: BoardSource, 2000.
ISBN 978 1586860004.

This resource provides more than 70 sample board policies and job descriptions collected from a wide variety of US not-for-profit organisations. The user's guide provides a basic overview for each of the policies. A diskette contains the full selection of sample policies and job descriptions that can be easily customized to suit each organisation.

GARRATT, BOB.

*The Fish Rots from the Head: The Crisis in Our Boardrooms:
Developing the Crucial Skills of the Competent Director.*
London: HarperCollinsBusiness, 1996.
ISBN 0-00-255613-8.

One of the original writers on the subject of the 'learning organisation', Garratt applies these concepts to the work of the board. Starting from the premise that the great majority of directors have no training for the job, Garratt attempts to clarify and integrate the roles and tasks of the board and its members. In particular he emphasises the need to learn new thinking styles to apply to the intellectual activity of governing.

HILMER, FREDERICK G.

*Strictly Boardroom: Improving Governance to Enhance
Company Performance.* 2nd ed.
Melbourne: Information Australia, 1998.
ISBN 1-86350-249-1.

This report of an independent working party into corporate governance (originally published in 1993) as published in response to a concern that boards, in the wake of the corporate crashes of the late 1980s and early 1990s, were becoming too defensive. This book offers a perspective that urges directors to get the *conformance* and *performance* aspects of their work into a better balance with a view to creating real value growth for shareholders. Recent corporate collapses make this analysis more relevant than ever.

INGRAM, RICHARD T.

Ten Basic Responsibilities of Nonprofit Boards. 3rd ed.
Washington DC: BoardSource, 2003.
ISBN 978 1876550004.

A newly revised edition explores what the author has specified as the 10 core areas of board responsibility including determining mission and purpose and ensuring effective planning. Reflects US expectations of not-for-profit board members such as participating in fund-raising that may not be so pertinent in New Zealand. Nevertheless a useful reference and of some assistance in drafting job descriptions, assessing board performance and orienting board members on their responsibilities.

13.1 BOOKS

KEIL, GEOFFREY AND NICHOLSON, GAVIN.

Boards that Work.

Sydney: McGraw-Hill, 2003.

ISBN 0-074-71237-3.

Built around the concept of a board charter which would be beneficial to many organisations, this covers governance roles, processes, key board functions and opportunities for continuing board improvement. Its commercial organisational focus does not detract from its practical usefulness.

KLEIN, SABRINA.

The Art of Serving on a Performing Arts Board.

San Francisco: Theater Bay Area, 1998.

ISBN 0-9605896-9-4.

The author is the executive director of Theater Bay Area a non-profit member service organisation whose mission is to unite, strengthen and promote theatre in the San Francisco Bay area. It provides a range of resource material including this publication, which was prepared specifically for those interested in, or committed to, serving as board members of performing arts organisations. Rather than being a 'how to' book, it aims to highlight why serving on a performing arts board is different from serving on the boards of other types of service organisations. In particular it addresses areas of common contention and confusion between artists, arts managers and their boards of directors.

LEBLANC, RICHARD AND GILLIES, JAMES.

Inside the Boardroom.

Mississauga, Ontario: Wiley, 2005.

ISBN 10-0-470-83520-6.

This book is based on empirical work within a boardroom setting and focuses on boardroom dynamics. It provides many insights into directors' behaviour and is particularly useful for its chapter on the chair of the board.

LEIGHTON, DAVID AND THAIN, DONALD.

Making Boards Work: What Directors Must Do to Make Canadian Boards Work.

Whitby, Ontario: McGraw-Hill Ryerson, 1997.

ISBN 0-07-552834-7.

This is a most comprehensive and thorough examination of critical features of effective governance. The combination of case studies and an exploration of the structures, systems and processes leading to best practice governance make this one of the best books currently available.

MCDANIEL, NELLO AND THORN, GEORGE.

Arts Boards: Creating a New Community Equation.

New York: Arts Action Issues, 1994.

ISBN 1-884345-03-4.

An excellent introduction to addressing governance challenges in the arts sector, this is the book that will help your 'lay' board members understand why artistic enterprises may require a somewhat different approach

to that which they may have experienced in, say, manufacturing or other commercial sectors.

It pays particular attention to debunking certain popular myths about the organisational cultures and governance disciplines of arts sector organisations.

NADLER, DAVID A; BEHAN, BEVERLY A AND NADLER, MARK B. (EDS.).

Building Better Boards.

San Francisco: Jossey-Bass, 2006.

ISBN 10-0 -7879-8189-X.

This is a practical book containing many ideas from the authors' consulting practices. It is very performance oriented and covers topics such as chief executive performance evaluation not often dealt with in similar publications.

OLIVER, CAROLINE (ED).

The Policy Governance Fieldbook: Practical Lessons, Tips and Tools from the Experiences of Real-World Boards.

San Francisco: Jossey-Bass Publishers, 1999.

ISBN 0-7879-4366-5.

This book is not about governance in the broader sense but is focused purely on the application of John Carver's Policy Governance® model. Readers looking for a general discussion about governance per se will be disappointed. However anyone who wants to read about Carver's model, but in someone else's words, will find the book to be very readable and, as its title promises, eminently practical. Beginning with an explanation of the philosophy underpinning policy governance, *The Policy Governance Fieldbook* explores the various corners of the model with practical real-life examples and tips for implementation.

SHULTZ, SUSAN F.

The Board Book.

New York: American Management Association, 2001.

ISBN 0-8144-0549-5.

The sub-title to this book is *Making Your Corporate Board a Strategic Force in Your Company's Success*. Based in the United States and focused on the commercial scene this is nevertheless a very worthwhile book for not-for-profit arts boards. It deals comprehensively with a wide variety of boardroom performance issues. Among these, matters seldom touched in other 'board books', such as board recruitment, are addressed in a thorough and practical manner.

TROPAN, JOHN E AND ELMER J.

Nonprofit Boards: What to Do and How to Do It.

Washington DC: CWLA Press, 1999.

ISBN 0-87868-694-0.

This is a practical and sensible book for a not-for-profit board. It explains governance concepts and practices well and provides a variety of useful tools and applications.

13.2 PERIODICALS

BOARD LEADERSHIP

Edited by John Carver this United States oriented bi-monthly magazine focuses on the implementation of Carver's Policy Governance® model. Subscription details are available from Jossey-Bass Publishers, San Francisco or the Carver web site (see below)

BOARD MEMBER

A monthly periodical produced by the National Center for Nonprofit Boards (US). It is a somewhat 'glossier' production than others referenced but carries interesting and useful material including, from time to time, items concerning the arts sector. It is of particular interest for its use of a wide variety of case studies and is available from the NCNB via their web site (see below).

BOARD CAFÉ

This monthly 'electronic' newsletter is available free from Blue Avocado (www.blueavocado.org). Said to be short enough to read over a cup of coffee (hence the title) it generally features a main article on a topic of practical interest to not-for-profit boards.

GOOD GOVERNANCE

Published by BoardWorks International this bi-monthly subscription journal is designed specifically to assist governing boards in all sectors to understand their governance role and to provide practical guidance that will help them to develop their performance over time. Unlike most other readily available governance resources, based on the publishers' consulting practice, this has a strong Australasian focus. Many of the issues referred to earlier in this guide are explored in greater depth along with practical tools and techniques.

For a complimentary sample copy, details of the content of past issues and subscription details contact BoardWorks International's Wellington office (+64 4 569 3447).

The journal is also available via the BoardWorks International web site (www.boardworksinternational.com).



YOUNG READERS ENGAGE
WITH ILLUSTRATOR
LINDY FISHER
AT STORYLINES FESTIVAL 2008

[CREDIT]

13.3 WEB SITES

BOARDSOURCE (FORMERLY THE NATIONAL CENTER FOR NONPROFIT BOARDS)

(www.boardsource.org).

Although focused on the governance of not-for-profit organisations this US-based site has much to offer anyone interested in improving governance effectiveness. Of particular value for quick access to advice on particular issues is the comprehensive and well-archived FAQ (frequently asked questions) section. From this section, for example, it is possible to pull down sample job descriptions for board officers that would be of immediate practical application.

BoardSource is a prolific publisher of 'hard copy' support materials for boards and their senior executives and these can be purchased via the site's bookstore. It has produced, for example, a 10-booklet governance series, which includes such titles as 'Creating Strong Board-Staff Partnerships' and 'How to Help Your Board Govern More and Manage Less'. BoardSource also publishes a monthly magazine and a selection of articles is available online. Of particular interest are the real-life case studies that are reported in the magazine. Past issues have included illustrations from the arts sector.

BOARDWORKS INTERNATIONAL

(www.boardworksinternational.com)

Closely associated with Creative New Zealand's governance initiatives, BoardWorks International is a specialist governance effectiveness consulting group with personnel throughout New Zealand. This site includes a range of material for those interested in boardroom effectiveness including information on the specialist publication Good Governance.

BLUE AVOCADO

(www.blueavocado.org)

This site is the source of the electronic newsletter targeted to members of nonprofit boards formerly called Board Café. It has been published monthly since November 1997 and is made available by e-mail without charge.

A subscription form and back issues can be accessed from links within this site. While some material is specifically relevant to the United States, much is of wider interest and application.

FREE TOOLKIT FOR BOARDS

(www.managementhelp.org)

This site provides links to various resources, often including articles and specific board effectiveness tools. It is a useful inventory of resources focused on the not-for-profit sector.

DREESZEN, CRAIG. FUNDAMENTALS OF BOARD DEVELOPMENT. UNIVERSITY OF MASSACHUSETTS

(www.umass.edu/aes)

POLICY GOVERNANCE

(www.carvergovernance.com)

John Carver's web site advocates the use and application of Carver's Policy Governance® model. It often has at least one substantive article on a governance performance issue which can be downloaded without charge. Of particular value is the opportunity to observe or even join in the debate on particular governance issues that have been raised by site visitors. The site also provides information on Carver's publications and the courses and seminars he runs on policy governance.



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