On Board

SERVING ON THE BOARD OF AN ARTS ORGANISATION

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Introduction

Being a board member of an arts organisation has always been a combination of pleasure and responsibility. The pleasure comes from associating with an organisation or individual whose work you admire and enjoy, and from helping to sustain and develop that work. The responsibility comes from meeting legal compliance requirements, and from ensuring that organisational performance meets the expectations of the public and key stakeholders.

This booklet provides brief notes and checklists on four aspects of a board's operations:

- legal and financial responsibilities
- strategic and financial planning
- relationship with the CEO
- recruitment and induction of members.

The booklet is an accompaniment to *The Book of the Board: Effective Governance for Non-Profit Organisations* (Federation Press, 2003) by David Fishel, which provides more detail on these and other topics of concern to board members in non-profit organisations, including arts organisations.

Sometimes it seems that the pressures and constraints experienced by arts organisations encourage an undue focus on the detail of monitoring and accountability. The effective board is one that retains a broader strategic focus, without losing sight of its compliance requirements. The effective board also:

- appoints the best possible chief executive officer (CEO), supports them, and reviews their performance against agreed targets and plans. The CEO may have the title artistic director, director or executive director—this booklet uses CEO generically
- adapts to the environment in which the arts organisation operates
- strikes a balance between short-term and longer-term health of the organisation, paying attention to inter-generational equity
- confirms policy and is highly mission-focused
- develops coherent decision-making processes
- nurtures a collegial environment but values the right to challenge (that is, cohesive but not over-compliant)
- maintains its own health—through self-assessment and targeted recruitment and induction
- gets results.

Legal responsibilities

In spite of the apparently high level of legal expectations on board members, the law does not demand that boards 'get it right' every time. The law demands only that board (or 'management committee') members observe their duties of care, diligence and other specific legal duties; know their organisation; and make decisions on a fully-informed basis.

The real challenge is ensuring that board members know those duties and what they mean in a practical context.

First, look to your constitution. That document will lay out some specific and obligatory roles and responsibilities for the board.

Second, most arts organisations are either incorporated associations or companies limited by guarantee. The incorporated association laws do not spell out a clear set of duties for management committee members, but it would be wise to act in accordance with the directors' duties expressed in corporations law.

Some of the key duties of board members or directors include:

- to exercise reasonable care and diligence
- to exercise their powers in good faith in the best interests of the company and for a proper purpose
- to not make improper use of their position as a director to gain advantage for themselves or for anyone else
- to not make improper use of information obtained as a director to gain an advantage for themselves or for anyone else
- to not delegate their discretionary powers to anyone else (that is, to not come into the boardroom mandated or instructed to vote a particular way on an issue)
- to avoid conflicts of interest.

How does a board member know if he/she is being suitably careful and diligent? Such a member:

- reads board papers in advance of meetings
- checks on the implementation of board decisions
- is provided with regular and clear financial reports.

Furthermore, a careful and diligent board:

- has full and frank debate at meetings
- has a thorough member induction process
- has a duty statement for members
- has a code of conduct for members
- has policies for the areas of greatest risk or significance for the organisation, including conflict of interest
- asks relevant managers to attend board discussions related to their area of responsibility.

Board members cannot delegate the ultimate responsibility for ensuring the organisation is run soundly, but they are generally only exposed to personal liability when they have failed to fulfil their legal duties and responsibilities.

Financial responsibilities

The board has three main roles in relation to the financial management of the organisation:

- **Plan**—to plan the financial structure and activity of the organisation in the long term and short term, for example, the annual budget, hiring new staff, putting on a new show, exhibition or project
- **Monitor**—to monitor the financial operations of the organisation to ensure that targets are being met and that there is no misappropriation of funds
- **Manage**—to respond to financial indicators and figures with strategies and decisions which maintain the financial health of the organisation.

While it is rare for arts organisations to go out of business, many operate at the margins financially. Funding stakeholders are keen to encourage sound financial management, including the establishment of reasonable reserves to protect the organisation against the short-term vicissitudes of 'cultural business'.

The board should:

- make sure that a realistic budget is developed. The board should be wary of optimistic income targets that do not stand up to scrutiny. The assumptions driving key budget items need to be based on the organisation's previous results and achievements, or on reasonable industry benchmarks. Expect clear plans for how earned income, fund-raising and sponsorship targets will be achieved. Board members should be willing to play an active role in securing private income, such as effecting introductions to business or personal contacts.
- ensure the budget is developed early enough so that the entire board can be involved in its review and approval before the beginning of the fiscal year
- expect management to produce timely and accurate income and expenditure statements, balance sheets and cash-flow projections, and expect to receive these in advance of board meetings
- require periodic confirmation from management that all required compliance documents are up-to-date, and that employee withholding taxes, insurance premiums, etc. are being paid when due
- consider the value of maintaining standing audit and/or finance committees
- use financial reporting for strategic planning and reviews of the organisation's efficiency and effectiveness.

When the budget is being developed it is important for the board to understand and confirm the assumptions that underlie the figures, and to make sure they are clearly expressed. No question that aims to clarify budget assumptions or risk exposure should be considered too naïve—this is the board fulfilling one of its core responsibilities.

How are we doing?

1. Does the person responsible for preparing the financial reports for the board attend that part of a board meeting at which finance is discussed?
2. Does the general manager or CEO personally check all financial reports before they are distributed to the board?

3. Does the board receive:
   - monthly financial statements prepared on an accrual basis of accounting?
   - monthly or quarterly cash flow statements?
   - all reports on a timely basis?
4. Does the board receive a regular written report from the CEO or treasurer highlighting any exceptional items in the financial statements?
5. Is a regular comparison made of budgeted income and expenditure with actual income and expenditure?
6. Does the board receive projections showing how the year-end result is likely to be affected by progress to date? Does it consider what actions need to be taken when current results are below par?
7. detailed budgets prepared for all activities?
8. Does the board insist that:
   - detailed budgets, including cost-benefit assumptions, are prepared for all substantial capital expenditure?
   - feasibility studies are conducted and circulated to the board showing how all capital expenditure will be paid for before any final decisions are made?
9. Are there contingency plans for major budget items going adrift?
10. Does the board ensure that there is an adequate system of internal control over all financial transactions and effective stewardship of company assets?
11. Does the chair of the board or chair of the audit/finance committee meet the company's auditors at least once a year?
12. Is the board satisfied with the quality of financial information provided for board meetings?

Strategic planning

Planning is an opportunity to align the board, CEO and others behind a common sense of direction. The strategic business plan can also convince potential funders and business partners that the organisation knows where it is going, and what it needs to do to get there.

The strategic business plan is a board document, just as policies represent board decisions and parameters. However, the board's role in the strategic planning process can range from relatively modest input at key stages to almost full engagement in all aspects of the plan's development.

The board's irreducible planning responsibilities are to:

- establish the mission and values which guide the organisation's direction
- confirm the assumptions made about the organisation's environment
- determine the level of risk which is acceptable to the organisation
- ensure that the core business of the organisation is maintained
- accept the plan as a key board working document.

A good plan is a well-thumbed plan. Require the CEO to report against it on a regular basis and review it annually, perhaps in the context of a planning retreat, or other forward planning processes.

During planning, the board may ask:

- Does the mission statement need revision?
- Are the plan's assumptions about the organisation and its environment complete, current and realistic?
- What are the cost-benefit ratios of the organisation's programs and services ?
- How can we reach a wider audience?
- Which initiatives proposed in the plan are most promising?
- Are the priorities clearly stated and the proposals for funding them realistic?
- What policy should the board adopt about community representation on the board, in the organisation's artistic work, and in the office?
- What are the staff requirements for proposed new programs and services?
- How will additional staff positions be funded?
- How realistic are the financial projections based on recent income and expenditure trends?
- What should be the organisation's goal for financial reserves?

The relationship between the board and CEO

The health of the relationship between board and CEO strongly influences the success of the organisation, and this in turn is largely determined by the nature of the partnership between CEO and chair.

The demands on the CEO of an arts organisation are extensive—among other things, the CEO must:

- reconcile the conflicting demands of artists, public and private sector partners, volunteers and others, and align their energies in pursuit of culturally or educationally useful ends
- inspire trust, confidence and optimism among the organisation's potential supporters
- ensure that the organisation is financially sound and fully accountable to the community it serves
- position the organisation for the future in the face of limited resources and frequent changes in the external environment.

In many cultural organisations the CEO will be judged primarily by their ability to deliver high-quality work on the stage, or in the gallery or workshop, and thereafter by other leadership responsibilities. It is small wonder that many cultural organisations opt for a dual-role executive—typically artistic director and general manager—in order to cope with this diverse portfolio, even if this creates a less clear-cut reporting structure than the board would like.

The board's obligations to the CEO include:

- compensation, benefits, and a working atmosphere that make the CEO's position attractive to the best possible candidates
- a clear duty statement and performance goals
- regular formal performance reviews
- constructive informal feedback on job performance
- respect for the CEO's authority over staff
- prompt and thoughtful responses to requests for guidance or assistance.

The CEO's obligations to the board include:

- commitment to the organisation's mission and artistic policy and sensitivity to the communities it serves
- responsible performance of fundamental organisational and administrative tasks
- an administrative structure and decision-making process that promotes a productive working atmosphere and effective staff relations
- thorough and timely communication with the board on financial and administrative matters
- effective representation of the organisation in the community and commitment to enhancing its public image
- prompt and thoughtful response to board requests for information.

The chair and CEO

The chair wants to be associated with a successful organisation ... The CEO wants support and advice ... The chair wants no surprises ... The CEO wants the space to get on with the job.

The chair and CEO should talk through their needs and aspirations to clarify their expectations of each other, and to ensure there are no (avoidable) areas of overlap or potential conflict:

- How are we going to prepare board agendas?
- What are the key areas the board needs to focus on?
- What papers will be prepared for board meetings and in what level of detail?
- Who will minute the meetings and in what level of detail?
- What are the protocols for board-staff communication?
- Who will be the principal external spokesperson for the organisation?
- What are our expectations of the board members?
- What information does the chair want and not want?
- What support and advice does the CEO want?
- How will the chair or board appraise the work of the CEO and provide feedback?
- What are the key things we need to achieve in the next year?
- How often will we meet or teleconference?

The CEO needs consistency and support from the board, and in turn the board looks for honesty and openness from the CEO. Clear roles and policies, regular communication and mutual respect are the foundations of a productive relationship between board and CEO.

Recruitment and induction of board members

The board may identify the need for new members because:

- retirement procedures require current members to step down
- new challenges or directions require new skills on the board
- some members are not pulling their weight
- there is too much pressure on a small group of active members
- one or more members' personal or work circumstances mean they have to resign from the board.

Where the board has some control over the process of identifying and approaching potential new members, here is a process for recruiting new members:

1. Produce a profile of the board showing its current composition.
2. In the light of recent strategic planning and the organisation's major goals, identify what skills would be most useful to the board.
3. Invite both board and staff to suggest potential members in the light of the needs identified. Then, with their help, compile a list of 'people who may lead us to people', so that the search for potential members is not confined to the board's own networks.
4. Approach some of these contacts for ideas and suggestions, and then compile a long list.
5. Contact the potential candidates and ask to meet. This is likely to be a task for the chair or a member of the board who has been allocated this role.
6. Identify if there are any potential conflicts of interest with the candidate; for example, he or she is on the board of a competing organisation or a supplier of the organisation.
7. Give feedback to the board and, if a shortlist is required, decide who the priority potential members are.
8. Possibly invite the prospective new member to a board meeting.
9. Shortly after the meeting, call the prospective new member to hear if they want to apply to join the board or not.

This may seem a very formal and structured process but, apart from being thorough and coherent, it sends a signal to the potential board member that their involvement is taken seriously.

On joining the board, a new member should receive a structured induction process to bring them up to speed as soon as possible. This increases their value to the organisation, and minimises the risk of them feeling like an outsider for months after they have joined. Depending on what has preceded the member's appointment, the induction procedure could include:

- a meeting with the chair to clarify board roles, particular expectations of the new board member and strategic issues
- a meeting with the CEO to learn about key personnel, the range of operations, and issues currently facing the organisation
- a tour of the organisation's premises and an opportunity to meet some of the staff
- an invitation to see the organisation's activities and programs in action
- an 'induction pack' (containing constitution, annual report, organisational diagram, etc.)
- a follow-up meeting with either the chair or CEO for clarification of any of the material in the board manual.

Further information

This booklet has touched on a few of the key areas of responsibility of board members of arts organisations. In the interests of brevity, several topics that are important for an effective board have not been covered, including:

- the arts industry knowledge of board members
- legal compliance and risk management processes
- use of financial ratios and indicators (to monitor progress and to ensure the organisation is allocating resources in line with agreed priorities)
- running effective meetings
- monitoring organisational performance
- monitoring board performance
- personnel policies
- marketing, fundraising and advocacy
- recruitment and appraisal of the CEO.

Most of these topics are addressed in *The Book of the Board* (Federation Press, 2003). You may also find Australia Council publications useful—look under 'Arts Resources' on our website <www.ozco.gov.au>. You can also call 02 9215 9000 (toll free 1800 226 912) to order publications.

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