



Australian Government



# On Board:

Serving on the board of an arts organisation



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# Introduction

Being a board member of an arts organisation is both a pleasure and a responsibility. The pleasure comes from associating with an organisation or individual whose work you admire and enjoy, and helping to sustain and develop that work. The responsibility comes from meeting legal compliance requirements, and 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 based on *The Book of the Board: Effective Governance for Non-Profit Organisations, 2nd edition* (Federation Press, 2008) by David Fishel, which provides more detail on these and other topics of concern to board members in non-profit organisations, including arts organisations.

# Legal compliance

The law does not demand that board members get every decision right – but it requires them to be diligent and thorough in trying to do so.

## The legal duties placed on directors fall into two broad categories:

1. The duties of **good faith and loyalty** – a group of duties that require the director to act, and use the information and position they gain as a director, strictly in the interests of the organisation, and not the director's own or the interests of any other person or group – including avoiding conflicts of interest.
2. The duties of **care and diligence** – a group of duties that require the director to attend to their role as a director with care and diligence, by reading and considering board papers, attending and actively participating in meetings and getting to know the finances and operations of the organisation sufficiently to make well-informed decisions.

The real challenge is ensuring that board members know their 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.

Secondly, 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.

Thirdly, the board should put in place processes to ensure compliance with the many laws that govern the organisation. This can include the development of a Compliance Policy, and routine reviews of compliance performance.

## Particular areas of focus might include:

- occupational/workplace health and safety
- anti-discrimination legislation
- taxation obligations
- contractual obligations
- conditions of funding
- the terms of the organisation's Constitution
- corporate governance and reporting
- special legislation that applies to your sector/organisation.

Finally, how does a board member know if he/she is displaying suitable 'care and diligence'?

### Care and diligence is displayed when a board member:

- reads board papers in advance of meetings
- checks on the implementation of board decisions
- is provided with regular and clear financial reports
- participates in full and frank debate at meetings
- has a thorough member induction process
- has a duty statement as a board member
- has a code of conduct to guide their behaviour and standards
- 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.

## Financial responsibilities

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

- 1. Planning:** the board needs to plan the financial structure and activity of the organisation through approval of annual or longer-range budgets. The board should also agree on framing financial policies, such as reserves targets.
- 2. Monitoring:** the board needs to monitor the financial operations of the organisation to ensure that targets are being met and there is no misappropriation of funds.
- 3. Decision-making:** the board needs to respond to financial indicators and figures with strategies (normally proposed by staff) and decisions which maintain the financial health of the organisation e.g. approve arrangement of an overdraft if cash-flow falls below a certain amount.

#### The board needs to:

- Make sure that realistic budgets are developed and that the assumptions underlying key budget items are understood and agreed.
- 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 (or before applications to major funders have to be submitted).
- Require management to produce timely and accurate income and expenditure statements, balance sheets and cash-flow projections; and receive these in advance of board meetings. Clear comparison between actual and budgeted financial performance needs to be drawn, and variances explained and, if necessary, acted upon.
- Use financial reporting mechanisms to inform strategic planning and review of the organisation's efficiency and effectiveness.

- Require periodic confirmation from management that all required filings are up-to-date and that employee withholding taxes, insurance premiums and such like, are being paid when due.
- Consider the value of maintaining standing audit and/or finance committees.

Most board members will have their own view as to what level of financial detail should be presented to the board, in what format, and with what frequency. There are no hard and fast rules, but it is important for the board to discuss periodically, with the CEO, what their expectations and needs are, in the light of:

- the board's desire for significant management information
- the board's need for reassurance that income and expenditure are on track, or awareness if they are not
- a sense of economy with the staff's time
- discouragement of board focus on petty detail.

Where there are financially experienced staff in the organisation, the board's time on financial monitoring may be reduced and correspondingly more time invested in considering more strategic questions:

- to what degree are our policy priorities reflected in our financial priorities – are we putting our money where our policy mouth is?
- how can we improve our long-range cash-flow forecasting and management?
- what level of liquidity is necessary for the organisation?
- what should our reserves policy be?
- what is an appropriate cost-benefit analysis framework to assist us with major capital expenditure decisions, or decisions about launching new programs of work?
- have we captured our assets, including intellectual property, in the financial statements – and how do we place value on these?
- are our assets, including our people, deployed to greatest effect?
- are our assets appropriately protected?

## A financial checklist

- Does the person responsible for preparing the financial reports for the board attend the part of a board meeting when finance is discussed?
- Does the chief executive personally check all financial reports before they are distributed to the board?
- Is the person who prepares the financial statements free to discuss with the board any matters relating to the accounts?
- Is a standard format used for all financial reports?
- Does the board receive:
  - monthly financial statements prepared on an accrual basis of accounting?
  - monthly or quarterly cash flow statements?
  - monthly or quarterly balance sheets?
  - all reports on a timely basis?
- Does the board receive a regular written report from the administrator or treasurer highlighting any exceptional items in the financial statements?
- Is a regular comparison made of budgeted income and expenditure with actual income and expenditure?
- Are detailed budgets prepared for all activities?
- Does the board receive draft budgets for the next year, in sufficient time for appropriate discussion and, if necessary, second drafts to be prepared for approval?
- Does the board insist that:
  - detailed budgets, including cost benefit assumptions, are prepared for all substantial capital expenditure?
    - feasibility studies are carried out and circulated to the board showing how all significant capital expenditure will be paid for before any final decisions are taken?
    - at least three quotations are obtained from potential suppliers before considering any major capital expenditure?
- Does the board ensure that actual capital expenditure is compared with budgeted capital expenditure on a regular basis?
- Are detailed working papers prepared and kept by staff to support figures in all financial reports prepared for the board?
- Are all questions asked at a board meeting answered adequately?
- Does the board ensure that the investment of company funds at call or otherwise with an institution is in line with the organisation's policy?
- Does the board ensure that the company has an adequate system of internal control over all financial transactions and take control of company assets?
- Are there clear, written financial delegations?
- Does the chair of the board or chair of the audit/finance committee meet the company's auditors at least once a year?
- Does the board review all management letters from the external auditor?
- 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 get there.

The strategic business plan is a board-approved document. 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 fundamental planning responsibilities are to:

- approve the process for preparing the plan – and ensure that appropriate stakeholders are consulted at key stages
- establish the mission and values which guide the organisation's direction
- confirm the assumptions about the organisation's environment
- determine the level of risk acceptable to the organisation
- ensure the core business of the organisation is maintained
- accept the plan as a key board working document
- identify the key results areas and key performance measures by which the board will measure progress.

John Bryson's *Strategic Planning for Public and Nonprofit Organisations*, divides the planning process into 10 steps:

1. Securing agreement on the planning process
2. Clarifying the mandates – the imperatives or givens that provide a context for the plan
3. Defining or reviewing the mission and values of the organisation

4. Undertaking an internal and external environment scan
5. Determining the main strategic issues affecting the organisation
6. Formulating strategies
7. Reviewing the proposed strategies, and adopting the plan
8. Visioning future success – what will the organisation look like?
9. Implementation process
10. Reassessing progress and refining strategies accordingly

### During planning, some of the questions the board may ask include:

- 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?
- Are the priorities clearly stated and the proposals for funding them realistic?
- 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?

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.

Every arts organisation would benefit from developing not only a strategic plan, but also a marketing plan and fundraising plan. These three documents provide a robust framework for the organisation visioning its future directions, and providing the road map to make progress. The marketing and fundraising plans in particular do not need to be lengthy documents. Two or three pages may be enough to capture the priorities and lay out some key targets and strategies.

**In relation to marketing planning the board should:**

- require formal marketing planning, integrated with the organisation's strategic plan
- endorse the selection of key target groups – ensuring they are in line with core business of the organisation
- confirm the primary marketing objectives
- ensure that the organisation's policies and priorities can be sustained by the organisation's marketing activity (i.e. ensure that there is not a disjunction between the service aspirations and the marketing resources)
- include strategic marketing expertise amongst the board's collective strengths

A number of common success factors characterise the organisations with more effective fundraising track records.

- clear development/fundraising objectives
- an active board, who are willing to use their networks and in some cases to donate substantial sums personally
- the essential leadership (and significant time input) needed from a dedicated chair, who is also able and willing to deploy useful contacts and influence
- the value of professional in-house staff, with previous development/fundraising experience
- a commitment to donor research, to provide a solid base of market knowledge
- the significance of high quality product or services (in relation to the main/parent organisation's activities)
- the importance of understanding the motivation of individual donors, and progressively building close relationships between potential donors and the organisation
- the importance of co-ordinating fundraising and development activity across all areas of the organisation
- the supportive role which the CEO can play, in helping donors feel valued, motivating the board or development committee, and assisting in sponsorship negotiations when appropriate
- a competitive attitude, recognising that fundraising and development require a will to succeed, regardless of short-term set-backs or frustrations

## Effective meetings

Sometimes board meetings seem to lack purpose, or to drag on for too long. There is an art to organising and running a good meeting, but the basic elements hold no mystery:

- a well thought-through agenda
- papers provided in advance
- an understanding of what decisions are needed
- an appropriate balance between monitoring and strategising
- active debate
- effective chairing
- clear actions and follow-up

The agenda is the key tool for managing the meeting. It needs to be prepared and circulated at least a week ahead of the meeting, along with the board papers, so that board members are given time to prepare for the meeting. There are a number of ways in which the agenda can be optimised:

1. Structure it to give priority to key issues. A standard format from one meeting to the next carries the danger of routine items always being dealt with early and strategic or developmental issues being dealt with later when energy levels are low, or being deferred for lack of time.
2. Similarly, divide the agenda clearly between policy development and strategic issues, and monitoring/reporting routines. This helps to ensure that appropriate time is devoted to bigger picture issues rather than falling into the temptation of attending only to the detail which sits within board members' comfort zones.
3. Identify those items on the agenda which are for information only, those which are for discussion, and those which require a decision and subsequent action. This helps to clarify the status of each item, and alerts the board member to concentrate on the decision-

making items. Some organisations adopt a variation on this, with 'starred' items being for discussion and others for information only.

4. Against specific items, identify whether anyone is making a report (and who), and if there are any relevant background briefing papers appended or to follow (which can be clearly cross-referenced on the agenda).
5. Remind everyone when and where the meeting is.

Every board member can make a difference to the quality of the meeting. Consider what can be done to help the meeting to be as effective as possible.

### Contributions to an effective meeting:

- reading carefully the board papers which you are sent in advance, and trying to resolve points of clarification before the meeting (where possible)
- attending, and arriving on time
- listening carefully to what others are saying
- being willing to question and challenge
- being supportive of other people's contributions
- retaining your sense of humour
- remaining loyal to decisions of the board – even where you may not have agreed with the decision
- maintaining confidentiality with regard to board deliberations
- agreeing to accept special assignments between meetings – so that substantive issues can be progressed, without clogging up the meetings themselves
- developing a knowledge of the organisation and the arts sector
- supporting the CEO, and not criticising her or him in front of staff
- avoiding conflicts of interest, and declaring them where they are unavoidable

## A meetings checklist

- Have we discussed recently the frequency and duration of our board meetings?
- Does the chair approve the agenda?
- Do we receive agenda and papers a week ahead of the meeting?
- Is there a good balance between monitoring and conformance on the one side, and visioning and future planning on the other?
- Are the papers clear and well-structured?
- Are we clear what decisions are required from the board at each meeting?
- Is the meeting room comfortable and free of distractions? Is any necessary equipment (e.g. audio-visual) available?
- Are the minutes of the last meeting available for signing?
- Are spare copies of agenda and papers available, if needed?
- Is there a high level of attendance?
- Does the whole board participate in debate?
- Does the chair encourage, manage, control individual contributions?
- Are potential conflicts of interest declared, and dealt with?
- Do we make well-considered decisions, and would they stand up to scrutiny?
- Are we clear about the rules of confidentiality, and joint responsibility for decisions taken?
- Do we use task forces and sub-committees to address issues which are more effectively explored outside the boardroom?
- Do we use retreats and strategy sessions to encourage blue-sky thinking?
- Do we receive appropriate input from staff, from external experts or consultants to arrive at decisions on complex issues?
- Do we record our decisions, and monitor implementation?
- Have we prepared an action list, or are minutes annotated to highlight actions?
- Have we discussed the format of the minutes recently? Are they issued promptly after the meeting?
- Are future meetings scheduled well in advance?

## The board and the 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. There is no single, authorised version of board behaviour or of board-CEO division of responsibilities.

Many CEOs of non-profit organisations say they do not receive benefit from the level of feedback they would like. Too many do not experience a regular appraisal. This may be a result of diffidence on the part of chair or board – perhaps it seems inappropriate for the ‘volunteer’ board member to appraise the professional CEO. A CEO’s appraisal should not be inherently different from an appraisal for any other member of staff – except that the board would not usually be involved in those.

### Set the scene for a productive relationship with the CEO:

- appoint the right person
- provide clear direction and targets
- monitor progress and performance
- provide constructive feedback, including regular appraisal
- offer moral and practical support.

A trusting relationship between board and CEO is likely to be characterised by:

1. empathy
2. co-operation
3. confidence in the respective role each plays
4. mutual feedback
5. the absence of turf wars
6. the right balance between conformance and performance
7. optimising their combined power

There are a number of potential barriers to building trust. On the board’s part these may include:

- hands-on role, intrusiveness (micro-managing)
- bringing specific volunteer/operational issues into the boardroom (role blurring)
- by-passing the CEO in dealings with staff (breaching protocol)
- conflicting instructions from the board to CEO (inconsistency)
- lack of resources allocated by the board to achieve its objectives (unrealistic demands or targets)
- struggle for primacy (putting self before the company)

On the CEO’s part the barriers may include:

- failure to provide information (abuse of knowledge power)
- incompetence
- failure to deliver on agreed tasks
- unwillingness or inability to nurture a positive working environment
- struggle for primacy

For the board member or chair who wants to take the initiative, there are some very simple things which can send a clear signal to the CEO that the board takes the health of the relationship seriously:

- Keep board development and appraisal on the agenda, so the CEO sees that commitment to improvement is a shared responsibility.
- Set targets for what the board is going to achieve, and meet them.
- Talk about the difference between strategic and operational matters, and where the board sees its role and involvement.
- Review the scope of board business on a regular basis, and contribute to making board meetings efficient and purposeful.
- Keep reporting demands to a sensible minimum – focus on the important issues not on minor budget variances or decisions which could have been delegated.
- Use board expertise to assist in reviewing organisational systems and processes.
- Provide support and advice, especially when it is requested.
- Avoid getting involved directly with staff issues which are the CEO's province,
- Establish expectations of how the chair and CEO will work together – if necessary, write it into their duty statement or role description.
- Ask the CEO how the board can help.

## Monitoring progress

In the end, it is all about results. Did we achieve what we set out to achieve? To ensure the organisation is on track, and to ensure the board is operating purposefully and effectively, it needs to be able to measure organisational performance.

There are a range of aspects of the organisation's work which could be monitored:

- financial accountability and financial results
- program outputs (activities undertaken)
- the quality of our work
- audience satisfaction and other outcomes (results).

A board that is concerned it is genuinely adding value to the organisation will also periodically assess its own performance. There is a hierarchy of evaluation approaches for the board, from the informal and time-economic to the more formalised and time-consuming:

- informal board discussion
- facilitated board discussion
- self-completion survey
- a board audit.

### The board audit could comprise:

- observer attendance at one or more board meetings, to see the board in action and evaluate meeting organisation, levels of participation, how time is spent
- review of board papers, to consider quality, thoroughness, clarity
- administration of a self-completion board survey form, and collation of results
- discussion with key stakeholders to secure their views on board effectiveness
- preparation of a discussion paper on areas of possible improvement
- facilitation of board discussion, and confirmation of a development program addressing areas for improvement.

## A monitoring checklist

- Is the board clear on the most important things to monitor?
- Do we use the strategic plan for monitoring organisational progress?
- Do we monitor:
  - financial accountability and results?
  - program products or outputs?
  - adherence to standards of quality in service delivery?
  - participant-related measures (are we serving those most in need)?
  - client satisfaction?
- Have we identified the resources needed to monitor effectively?
- Do we measure outcomes (results or impact), outputs (work done) and capacity (organisational capability)?
- Have we identified any 'lead' indicators to monitor progress towards longer-term results?
- Do we take corrective action based on our monitoring of progress?
- Have we clearly allocated responsibilities for monitoring and evaluation at different levels in the organisation?
- Do we periodically commission more thorough evaluations of our services?
- Do we commission customer research to see ourselves as others see us?
- Have we ever undertaken a 360° review of the organisation?
- Do we integrate evaluation of progress into the CEO's appraisals?
- Does the board undertake self-assessment, to consider its own effectiveness?
- In evaluating board effectiveness do we use:
  - informal board discussion?
  - facilitated board discussion?
  - self-completion surveys?
  - stakeholder consultation or 360° evaluation?
  - a board audit?
- Do we have, or need, a governance committee?

## 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.

However, further information and advice is available in *The Book of the Board, 2nd edition* (Federation Press, 2008). Copies can be purchased online at [www.positive-solutions.com.au/specialinitiatives](http://www.positive-solutions.com.au/specialinitiatives)

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