DEAKIN UNIVERSITY AUSTRALIA

Poor Governance sickens the Arts

We have the cure

by

Professor Johanne Turbide
HEC Montréal

Kenneth Myer Lecture for the George Fairfax Fellowship
Edited by Ruth Rentschler

Thursday 5 May 2011
ANZ Pavilion, The Arts Centre, Melbourne

ARTS VICTORIA

State Government Victoria

Published by Deakin University, Geelong, Victoria, 3217 Australia
First published in May 2011
Produced and distributed by the School of Management and Marketing
Faculty of Business and Law
221 Burwood Highway, Burwood, 3125

Printed by Deakin Print Services, Logistics Division, Deakin University
ISBN No 978 1 74156 158 6

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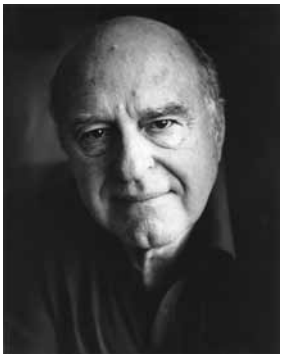
Acknowledgements

The George Fairfax Fellowship

The George Fairfax Fellowship in Arts and Entertainment Management at Deakin University enables visiting practitioners and scholars in the cultural arena to enrich our understanding of national and international issues in cultural management. The Fellowship was made possible by the generous support of important donors, including the Myer Foundation, Dame Elisabeth Murdoch and the Faculty of Business and Law at Deakin University.

Professor Johanne Turbide acknowledges research support from the Community-University Research Alliances (CURA) funded by the Social Sciences and Humanities Research Council of Canada (SSHRC). She wishes to address a special thanks to Christine Harel, coordinator of the CURA grant and Wendy Reid and Claude Laurin co-researchers on the CURA grant.



Photograph by Jacqueline Mitelman

George Fairfax AM
Hon LLD (Melb)
4 April 1928 – 8 September 1996

For more than twenty years, as technical adviser, chief executive officer and finally general manager, George Fairfax was the central coordinator of the design brief and planner of operational needs for the $200m multi-venue Victorian Arts Centre, establishing its operations, management structure and staffing. In this time he helped to establish the Arts Centre as, indisputably, one of the finest performing arts centres in the world today.

George Fairfax, actor, director, arts manager, was a man of great vision, integrity and generosity of spirit. Passionate about the importance of the arts in our lives, he had an extraordinary ability to draw the best from everyone whether they be artists, administrators or bureaucrats. As a fellow artist once put it 'he opened up the territory, created the conditions, maintained the landscape, made things possible. George was engineer, builder, carer and fighter for all of us'. George Fairfax has become a legendary figure in Australian theatre history.

George Fairfax's association with Deakin University extended over eight years. In this time, as chairman of the Course Advisory Committee, a position he still held at the time of his death, George was instrumental in establishing the unique arts and entertainment management graduate diploma which, in 1996, was extended to include open learning students from all over Australia and New Zealand. George held the belief that the principles of running an arts organisation were much the same as any other business and that arts management needed to be taught, as it is at Deakin University, in an innovative school of management.

Deakin University has recognised the important contribution made by George Fairfax to this University by establishing the George Fairfax Fellowship in Arts and Entertainment Management. The Fellowship, which is awarded annually, brings distinguished practitioners and academics in arts and entertainment management from this country and from overseas to the University. It also provides the opportunity for students to have first-hand experience and interaction with the visiting Fellow.

Vicki Fairfax
2011

Preface

This volume presents the Kenneth Myer Lecture by Johanne Turbide, Professor of Financial and Management Accounting at HEC Montréal (University of Montréal)

Professor Turbide is the 2011 George Fairfax Fellow in Arts and Entertainment Management at Deakin University, a prestigious appointment which has seen eminent fellows from around the world visit Deakin for the eleven years of its successful operation. Johanne Turbide is at the forefront of the development of arts governance, an important aspect of arts management.

Many arts organisations – especially small arts organisations – operate in a constant state of tension between securing financial resources and achieving their artistic mission. Their major concern is that creativity is at risk. Arts organisations are seen by many in the cultural industry as the foundation of creativity in ideas, innovation and content development, although this view has been challenged. Arts organisations, it is argued, are entrepreneurial, close to their audiences and mission oriented. However, they often feel that the need for financial resources and accountability place this creativity at risk. How can the crisis be solved? Is governance the answer? These are the questions that our George Fairfax Fellow in Arts and Entertainment Management for 2011, Professor Johanne Turbide, is asking in her delivery of the Kenneth Myer Lecture at the Arts Centre. She presents the findings from a study on boards of non-profit arts organisations at risk and in crisis. While the location of the arts organisations she studied is in Canada, the issues addressed have local relevance to us in Australia.

Governance of banks and corporations, of the national opera company and major art museums in Australia, has been brought to the forefront of media attention in recent years (Fishel 2008). Unfortunately, misdemeanours in corporate governance, public or private, have knock-on effects in all sectors under similar regulation. This is reported in research listed at the end of the Preface. Further, the Australia Council for the Arts has accepted responsibility for defining its expectations for governance in the non-profit arts sector by describing good governance as "how boards reconcile their value adding responsibilities (strategic direction and business building) with responsibility for financial stewardship (disclosure, internal controls, and fiscal rectitude)" in seeking to meet the needs of the artistic vision (O'Neil, 2002: 1). What we need now are solutions to the problems of crisis that arts boards may find themselves in from time to time – sometimes due to uncertain economic times, sometimes due to unsound management or governance and sometimes due to unforeseen declines in audience attendance at performances.

The model presented by Johanne Turbide provides a pathway that shows arts boards that fiscal management is not difficult and will resonate with government, potentially bringing more funds to cash-strapped arts organisations, thus helping them achieve their artistic mission. The result is that effective arts boards give management confidence and strength to both arts organisers and performers.

At Deakin University we are fortunate to be able to offer a truly unique, integrated, creative arts management program in an innovative business faculty, nurturing artists and arts managers by having lecturers and students exposed to the latest issues and trends in management as well as experience in the cultural industry. In a sector concerned with performance or exhibition, it has required a paradigm shift to see culture as fitting in a business environment.

This publication places on record the importance of arts management as a continuing topic for debate, as chosen by the George Fairfax Fellow. This volume places the development of arts management at the forefront of discussion, in order to emphasise its international importance to arts management students in the field.

Claudia Escobar, the design team at Deakin's Knowledge Media Division, Maria Cassera, Jenny Treloar, Bri Gunn and Helen Keogh all deserve thanks for their hard work and dedication to making the George Fairfax Fellowship such a success. They have supported the event in numerous ways from promotion to stuffing envelopes to developing lists. I appreciate their work which always shows their dedication to the task, high standards and an enthusiasm which I value highly.

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Ruth Rentschler

Melbourne, April 2011

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Abstract

We need to know more about governance in cultural nonprofit organisations (NPOs). Can good governance prevent financial crises in arts organisations? A vast research project has helped find the answers. Lack of artistic success is not the main cause of financial distress. NPOs in financial distress often have weak governing processes. Their board members need to know more about the problems leading to the crisis. We propose a governance framework to better monitor NPOs' external and internal environments. Then we present the reactions to this governance framework from interviews with NPO managers. Finally, we report results from arts organisation consultancy and reconcile these findings with the ones collected through interviews.

Poor Governance sickens the Arts

We have the cure

The Board is governing

In the last decade, financial crises have popularised the notion of governance. We have long known that boards of directors are responsible for the best and the worst regarding the success or the survival of an organisation. However, we rarely congratulate board members publicly when an organisation is successful. It seems that the success belongs to the management team. In the opposite situation, in cases of organisational or financial difficulties, we are quick to point the finger at board members. Who are they? Were they asleep? Why did they let the Executive Director and his team take such risky decisions? Quite easily, we assign criticism and blame to the board members:

"The board was irresponsible, it governed inadequately!"

These observations come from the recent history of businesses in various legal contexts, such as for-profit, not-for-profit or public organisational environments. As an academic teaching future chartered accountants, I was very much interested in the governance buzz. Moreover, my research involvement with the Quebec Ministry of Culture regarding boards of directors in not-for-profit arts organisations made my curiosity for the concept even more acute.

My first thoughts were: "Before accusing board members of inadequate governance, is it possible to get a clear picture of what this means?"

The positivism view

In the literature, the concept was first defined using the agency theory paradigm. The concept corporate governance was first publicised in the early 80s. For those adept in agency theory, corporate governance implies a principal (shareholders represented by board members) and an agent (the management team) and represents the process by which board members – elected by shareholders – counter-balance the chief executive officer's self-interested behaviours to ensure organisational and financial well-being (Fama, 1980; Fama & Jensen, 1983; La Porta et al. 2000).

Is that view transferable to not-for-profit corporations, where ownership is ill defined and where financial returns are not permitted (Bertrand and Turbide, 2007)? As noted by Caers et al. (2006), "Unlike for-profit organisations, nonprofit organisations do not possess a variety of shareholders who expect high returns from their investments and who have financial incentives to control their agents."(p. 30) Moreover, one can ask: "Who is the principal and who is the agent?" Is the board of directors the agent acting on behalf of funders and donors (standing for the principal)? This could be one view. For others, the board – representing donors and funders – is seen as *the principal* who is watching the manager and his team (*the agent*) and making sure that they perform in the interest of all stakeholders (i.e. donors and beneficiaries).

Finding the right box

My own opinion about the relevance of the agency perspective in the not-for-profit world is that we are trying to fit the object into the box instead of trying to find the right box for the object. Nevertheless, we still have to remember that this positivist view on governance is one of the most cited theoretical approaches and it is very widespread.

Therefore, how can we define governance in not-for-profit organisations if we are skeptical about the agency theory paradigm? Over the years, several approaches have emerged to capture the phenomenon in not-for-profits. For example, resource dependence theory (Pfeffer & Salancik, 1978), stakeholder theory (Freeman & Edward, 1994), stewardship theory (Davis et al., 1997) and managerial hegemony theory (Lorsch & McIvor, 1989) have all been looked at to explain board behaviours. Cornforth (2005) suggested an overview of different approaches, presented in Appendix 1.

Now a growing body of experts (Cornforth 2005, Speckbacher, 2008; Stone and Ostrower, 2007; Miller-Millesen, 2003) argue that all these various theoretical angles, should be analysed simultaneously, in a multi-paradigm perspective, in order to capture the complexity of organisational realities we face. Cornforth (2005), in a book called *The Governance of Public and Non-Profit Organisations – What do boards do?*, also advocates the need to compare the recent developments in for-profit, not-for-profit and public governance to identify similarities and differences in order to see what can be relevant across sectors (Cornforth, 2005, p. 6). In the same vein, Stone and Ostrower (2007) suggest that:

> *Despite the legitimate focus on governance at the organisational level of analysis, we argue that nonprofit scholars must widen their scope of inquiry. First, boards as well as the nonprofits they govern increasingly find themselves within regimes of public governance that directly affect them. (p. 426)*

According to David Renz, Director of the Midwest Center for Nonprofit Leadership at the University of Missouri (Kansas City, USA), who was our guest last summer in Montreal in a workshop on governance,[1] it seems that we face a challenging time for research in governance of not-for-profits. Our conceptions and models are in a major

state of transition, boundaries are blurring and a lot of reframing is underway. It is time for "both/and" thinking, not "either/or" thinking.

Having been involved with not-for-profit arts boards for over eight years, I could certainly argue that governance is about more than just roles and responsibilities. Governance is about relationships. It is about delimiting boundaries of actions. It involves engagement, challenges, debates ... and conflicts.

In order to capture the complexity of the phenomenon, we can refer to the definition provided by Renz (2004), who argues that:

> *Governance is the process of providing strategic leadership to a nonprofit organisation. It entails the functions of setting direction, making policy and strategy decisions, overseeing and monitoring organisational performance, and ensuring overall accountability. Nonprofit governance is a political and organisational process involving multiple functions and engaging multiple stakeholders. (p.191)*

Governance is not just the affair of board members. Board members represent one type of actor involved in the process. Other stakeholders (clients or beneficiaries, funders, donors, managers) all have roles to play.

[i] In the summer of 2010, we decided to bring together in Montreal researchers from different countries who were interested in capturing the complex dynamic involved in not-for-profit governance. The group named *Study Group on Nonprofit Governance Relationships and Dynamics* was created.

First reality check

Starting in 2003, the Quebec Ministry of Culture gave me and my research assistants the opportunity to observe the multiple facets of governance in real settings. We were appointed by the Ministry to prepare diagnoses of arts organisations struggling with financial problems. Arts organisations in trouble were requesting special funding to resolve their cash-flow problems, but the government agency was skeptical about their ability to survive in the long term. The funder was trying to get assurance that the special funding would not be a last cash injection before the organisation's demise. In fact, the government agency was looking for the causes of the crisis. In our research, we defined a financial crisis as a period when either the bank or a supplier is asking to be reimbursed quickly, sometimes within less than a week.

Over the years, we did 12 diagnoses: seven in the performing arts and five in the museum area. In half of the cases, diagnoses were followed by a process of accompaniment. The longer-term consulting relationship was facilitated by a major research project begun in 2006 and carried out in partnership with the not-for-profit arts community. The project is called *Financial crises in the arts sector: plan ahead don't react*.[2] The Ministry gave us permission to use the data we had obtained in our work over the years for this research. Our aim was to find an answer to the following question: What are the main causes behind financial crises in not-for-profit arts organisations in Quebec?

By 2006, we had sent six reports to the Ministry and we were following the progress of four organisations by participating in follow-up committees with staff and board members. What did we observe? First, we identified two major causes of financial crises: 1) an expanded program of activities due to a positive artistic reputation or 2) an expanded building due to the quality of the collection (museum settings) or due to a willingness to develop new markets or activities (performing arts settings).

Why did it become a financial problem? Mainly, because revenues did not expand at the same rate as the expenses incurred by the "new" events or bigger facilities. What was the role of the board in planning the expansion of these activities or facilities? Were there any common characteristics across cases that could account for the prevention of financial problems? The answer is yes: we found several common features worth addressing if we are to prevent financial crises.

[2] This research project was undertaken beginning in 2006 for five years at HEC Montréal under a Communities and Universities Research Alliance (CURA) grant from the Social Sciences and Humanities Research Council of Canada (SSHRC). One million Canadian dollars was given for a five-year research project.

Governance: an illness

From the 12 case studies, I will provide an in-depth analysis for eight of them . These organisations were facing a financial crisis and were looking for special funds. Across all cases, budgets varied from $400,000 (CDN) to $4 million dollars (CDN). To ensure consistency, we used the same protocol for all our data collection. There were three data sources: organisational documents (grant applications, audited reports, strategic plans, and task descriptions); open-ended and focused interviews (approximately 60 across all cases); and participation in meetings (over 40 across all cases). The data were initially collected for developing reports that were then sent to both the Ministry of Culture and the organisations in question.

The interviews probed possible trigger events and processes related to the crises. They were not recorded on tape due to the sensitive circumstances, but two researchers attended and took independent notes, ensuring data corroboration (Yin, 2003). By also participating in board meetings, the researchers were able to observe the board and staff together as the crisis unfolded, thus gaining direct insight into the dynamics of the board/staff relationship.

We noticed from all reports that four structural issues were consistent across all cases: artistic quality and reputation, financial management, the Executive Director's management style, and the engagement of the board. Also, we were able to draw some patterns of relation between board members and management over the various phases of the crisis. In the following, I will summarise our main findings.

Artistic quality and reputation

In all cases, artistic achievements (e.g., exhibitions for museums; or music, dance or theatre programs for performing arts) had earned the organisations a reputation either nationally or, sometimes, internationally. Often, organisations' programming was part of a tourist brochure as what we call an "attractive product".

Financial management

For four cases (three in the performing arts and one in the museum sector), program expansion increased operating expenses without generating a corresponding increase in revenues. For the four other cases (one in the performing arts and three in the museum area), the expanded facilities were too costly and revenues generated were not sufficient to pay for the increase in heat, electricity, insurance and other expenses. Moreover, all organisations suffered from late reporting, and financial data were rarely presented in a detailed manner.

[3] Four cases were from the performing arts sector and four from the museum sector.

Executive Director's management style

For six cases, the leadership style of the Executive Director was either autocratic or highly charismatic. In two cases, we characterised the Executive Directors' management style as paternalistic. In all cases, Executive Directors had entrepreneurial skills and the full confidence of their board members and chair.

Engagement of the board

In ten out of the twelve cases, board members were passive. In the two remaining cases (one performing arts organisation and one museum), board members were a little more active, but the Executive Director was still controlling the situation by means of his expertise and his reputation.

Phases of the financial crisis

In a paper accepted for publication in the journal *Nonprofit and Voluntary Sector Quarterly* (NVSQ), my co-author, Wendy Reid, and I identified three distinct phases of the crisis as it unfolded in four cases studied between 2003 and 2006 (Reid and Turbide, forthcoming). These phases are related to the changes in the relationship between board and staff. Although we have not yet extended our chart to include all cases, the analyses that we have done to date support our findings. Woods (1992) and Mordaunt and Cornforth (2004) also categorised phases of a crisis in not-for-profit organisations. We invite you to look at the published paper to compare the analyses. The following are some excerpts[4] from our article in NVSQ, regarding these three phases.

[4] Excerpts were adapted for the purpose of the presentation.

Phase 1: Before the storm

In this phase, highly trusting and "rubber-stamp" governance behaviour by boards predominated, with significant power residing in the executive leadership. The excessive trust in the leadership disengaged the board from an active, collaborative, and more informed partnership with staff. In our four cases, the organisation's artistic successes were at the forefront of everyone's awareness. The organisation was recognised by the community, the public, and funders for its work at home and abroad, providing stimulation for the board and producing a halo effect that included a high degree of trust in the Executive Director. While operating costs were allowed to rise significantly to support the increased artistic quality and production activity, they were not matched by private funds or other means of public funding. All of these internal factors underlay the impending crisis (Mordaunt & Cornforth, 2004).

In each case, risk assessment of the organisational expansion scenarios was limited. Under-resourcing or neglect of administrative functions resulted in poor alignment of financial planning and tracking of artistic growth and ambitions. Often, projections were overly optimistic. In each case, the crisis was triggered by the sensitivity of external stakeholders, such as private creditors, banks, and suppliers, to cash-flow and sustainability issues.

As described in Appendix 1, managerial hegemony understanding of governance (Lorsch & McIvor, 1989) may be the best way to describe the governance behaviour at this stage. Executives appear to have been given full rein to undertake projects without having to account financially for their decisions. Only positive press reports and accounts of visiting VIPs were provided to boards as information about the organisation. The Executive Directors were artistically charismatic and attractive, and the artistic success of the organisations was highly lauded.

Because of the excellent reputations of the organisations, however, basic operational government funding was easily obtained early in the life of the organisation. As a result, boards apparently lacked a boundary-spanning orientation as well as information about issues relevant to other financial stakeholders. Referring to Appendix 1, we see that resource dependence and stakeholder theory have little application in governance dynamics.

Phase 2: The crisis trigger

Suppliers, private creditors, and banks precipitated the crisis through legal action, demands for repayment of loans, and limits placed on credit, reflecting an external trigger to the crisis (Mordaunt & Cornforth, 2004). Passive board behaviour during the earlier risk-assessment period may have influenced the decision by government agencies to refuse increased operational funding to support expanded activities and emergency funding to support short-term sustainability.

Board members altered their engagement with the organisation and assumed control. The power relationship between the board and the Executive Director shifted in response to the threat to survival. Executive Directors lost decisional power and board members became preoccupied with financial procedures and efficiency.

Boards entered directly into negotiations with external stakeholders, bypassing the executive leadership. They sought temporary extensions with suppliers, additional credit from banks and private creditors, and grants from funders.

The board lost its position of confidence and trust for the Executive Director. His decisions and actions were challenged. In two cases, the Executive Director was removed. In three cases, the Board Chair resigned. In one case, the Executive Director remained after some serious questioning about competence at the time of the crisis. In the fourth case the government stipulated that members with a business background had to be added to the board, to increase monitoring capability.

Looking at theoretical perspectives (Appendix 1), we observed that the activities during this phase align with an agency perspective, reflecting an emphasis on control by the board and a fundamentally distrustful attitude. Further, the extensive interactions with the government at this stage reflect resource dependence and the newly developed relationships with the banks and suppliers reflect stakeholder theory. These changes entailed a sudden shift in behaviour for board members, from a passive stance in the earlier stage to very engaged and active involvement.

Phase 3: Continued survival

Once the organisations were stabilised after the immediate shock of the crisis, the boards appeared to move into collaborative but wary relationships with new players. These relationships were defined by a mixture of trust and distrust. In all four cases, the organisation made adjustments in order to function within the constrained circumstances.

The boards seemed to have difficulty maintaining a pre-eminent and controlling position within the organisation and within the external environment. In the new organisational context, with the same or new players in the Chair and Executive Director roles, distrust diminished and trust grew as relationships developed. Craving efficiency, both the board and the Executive Director sought to establish a more mature and collaborative relationship. Power appeared to be shared more equitably, with an expectation of checks and balances. Transparency became valued.

The shift to a collaborative relationship reflects a stewardship approach with, when needed, continued resource dependence, as reflected in Appendix 1. The crisis appears to remain within memory, however, so an agency perspective continues to shadow the relationship, tempered by a stewardship approach.

Light at the end of the tunnel

What did we learn from this descriptive study? Appendix 2 summarises for each phase of the crisis: board involvement, the observed dominant theoretical approaches and the type of relations between board and staff. We see from these observations that boards of directors are not well equipped to act proactively for the monitoring of external and internal dimensions that could affect the financial health of the organisation. Results from interviews showed that board members felt helpless when it came time to implement systematic processes to better anticipate the risks associated with artistic expansion.

Inspired by the results of our diagnoses, by recent developments in for-profit, not-for-profit and public governance (Cornforth, 2005) and in line with Kramer (1985) who argued that "a unitary model of board-executive relationships is inadequate because those relationships vary depending on a host of internal and external variables" (p. 902), my colleague Claude Laurin and I designed an integrative framework that implies a monitoring of both external dimensions and internal dimensions in order to capture the complex environment in which arts organisations evolve (Turbide and Laurin, 2009). Figure 1, appended, illustrates our conception of governance as adapted to the realities of not-for-profits in the arts world.

In this framework, we present the board of directors as the central dimension of governance. The board is fed by the management team who, we argue, is part of the governance dynamic. By including top management in the governance framework, we acknowledge the importance of the Executive Director as being responsible for most critical events in their organisation, as documented by Herman and Heimovics (1990) and Golensky (1993). In our field work with 12 arts organisations, we observed that the management team is crucial to the well-being of the not-for-profit. For example, building a management team that is committed to setting up a strategic plan that reflects the organisation's mission and that will eventually gain approval from the board of directors indirectly ties governance to the organisation's financial and organisational health (Siebart, 2005; Turbide et al. 2008). Table 1 presents the definitions of the internal dimensions selected.

Table 1: Definitions of internal dimensions

Mission	The organisation is able to clearly outline its mission or the performance indicators that will allow it to achieve the mission.
Strategic planning	The organisation conducts strategic planning, and an external consultant or board member designs or revises the process. Reviews/evaluations are done. The organisational plan is based on the strategic planning process, not the other way around.
Operational Planning	The organisation is able to outline its production cycle, give examples of planning work, and do follow-up on/evaluate the production cycles. The organisational plan is based on the strategic planning process.
Control and accountability	The organisation put in place organisation chart, work descriptions, employee evaluations, financial control (budgeted/actual), internal control (double signature, bank reconciliation, etc).

Figure 1 also illustrates that, to be adequate, governance must take into account a number of external dimensions found in the organisation's environment. Although managers can only have a modest influence on these external contingencies, we argue that a systematic monitoring of these contingencies should be part of the

organisation's governance practices. Through such a systematic monitoring, leaders of not-for-profits can quickly become aware of any change in their environment, and can react to the threats or to the opportunities as soon as they arise.

In our opinion, on this front, the differences in governance between business corporations and not-for-profit organisations are significant. Because they are not-for-profit and because their mission is expressed in cultural, artistic and social terms rather than economic terms, not-for-profit organisations must deal with external contingencies in their own way (Euske, 1992). Table 2 describes the external dimensions that we believe need to be monitored.

Table 2: Definitions of external dimensions

Competition	The organisation is competing for customers and for funding sources.
Socio-economic environment	The organisation has a relatively small economic power and is, therefore, in a vulnerable position rather than in an influential one regarding economic conditions.
Partners and stakeholders	The concept of governance must be adapted to take into account the interests of a greater number of stakeholders, who often have diverging interests.
Cultural environment	The organisation can only survive in relatively rich environments that encourage and value creativity.
Legal environment	The organisation has to be aware of different legal constrains, e.g. insurances, tax requirements, respect of different laws for the health and security of employees.

Furthermore, we acknowledge in our framework that the organisation's management must also have a good sense of the nature of its relationship with stakeholders. Does the management believe that it can influence important stakeholders, such as donors, or is the relationship hierarchical, with influence being exerted by the board alone? The bi-directional arrow between the organisation and the stakeholders illustrates that, as opposed to the external contingencies, the organisation has a relationship with the stakeholders.[5] In many instances, the nature of this relationship could allow the leaders of not-for-profits to influence the stakeholders, and this is particularly important if we consider the funding agencies. We argue that being able

[5] Because some organisations can influence fund providers such as funding agencies, the nature of the relationship between the organisation and the funders is sometimes perceived as being more of a partnership than a hierarchical relationship. In any case, it is crucial for any not-for-profit organisation to appreciate the nature of its relationship with donors. Although some form of partnership is foreseeable, the manager of the organisation must not lose sight of the fact that he or she is accountable mainly to donors.

to appreciate the influence that the board and the leaders have on the stakeholders is an essential governance practice.

With this framework we had two main objectives:

1. To better understand how organisations incorporate the uncontrollable variables of external contingencies in their governance practices;
2. Once the external contingencies have been identified and analysed, to understand how they are taken into account and what governance mechanisms organisations use to manage the trade-offs amongst their various stakeholder concerns.

Second reality check

To document the applicability of our framework, we interviewed managers to get their opinion on each component. Our ultimate aim was to describe the governance practices in use compared to what we see as an integrative approach to governance. We used a purposive sample, named judgment sampling (Cooper and Schindler, 2003), in order to collect data on a set of not-for-profits that would be representative of the different sizes in the arts and culture sector, of all the subsectors and of the various locations (cities and municipalities). We conducted interviews using a semi-structured questionnaire with 44 not-for-profits during Spring and Fall 2008. Our sample included organisations in visual arts, performing arts and museums. Nineteen not-for-profits were in small locations (under 500,000 inhabitants) and 25 were in larger locations.

In a paper presented in Alexandria in 2010, at the ARNOVA[6] conference, we reported the quantitative results of our questionnaire addressed to arts managers. For the purpose of this presentation, I will not go into details of methodology and results, but I will summarise our main findings in order to analyse the impacts of these results on the governance of art organisations.

Results: external dimensions

Respondents distinguished between competition for financial resources and competition for artistic products. Our results show that 70% of not-for-profit managers sense that there is competition for the funding aspect, while 49% sense that there is *co-operation* rather than competition with their artistic neighbours with respect to the product dimension. Several respondents told us that co-operation within a community helps to improve the quality of the product in their sub-sector. We also found that the socio-economic dimension and the legal one are not of great interest for managers of the arts. The cultural dimension is moderately monitored and the relation with partners and stakeholders shows the highest concern, regardless of the size or the arts sector surveyed. We also asked arts managers: who has the bargaining power, the funders or the arts organisation? The majority said that funders are not in authority but have a significant influence.

[6] ARNOVA is the American Association for Research in the Nonprofit and Voluntary Sector.

Finally, we questioned managers on how they perceive their influence on external dimensions. Results are as follows:

Table 3: Organisations' perception of their influence on external dimensions

	Competition	Socio-Economic	Political	Cultural	Legal	Funders
44 not-for-profit	30%	20%	39%	45%	5%	34%

Thus, these results show that managers seem to monitor less carefully dimensions that they cannot influence: socio-economic and legal dimensions.

Results: internal dimensions

Regarding the internal dimensions, it is useful to note that arts managers have a good knowledge of their mission regardless of size or sub-sector. Globally, managers have an interest for strategic planning but they are not clear about strategic planning even if, for the past ten years, a lot of energy has been put into emphasizing the importance of this "mangement tool" (Daigle and Rouleau 2010). The operational plan is a more familiar concept for all not-for-profits; however, for the managers of the dance discipline, it is still a vague tool. Overall, we found that managers have a good knowledge of controls and accountability, except for organisations from the visual arts.

Finally, we were also interested in an element important to many other researchers in not-for-profit governance: the importance of having board members who can compensate for the lack of business expertise in the organisation (Cornforth, 1999; Ostrower & Stone, 2006). Therefore, we asked the managers if they felt their board members were playing either of the following two roles: an accountability role, or a role of passing on expertise. The majority of respondents said that board members were more concerned with their accountability role. The transfer of expertise is a neglected role, and managers were also disappointed by the lack of fundraising expertise among several board members.

Governance: the cure

Where can we go from these rich empirical data to try to propose a more integrative framework that would help academics, arts board members and managers improve governance?

From a theoretical standpoint, looking at our diagnoses, we found evidence of variations in governance behaviour over time, which may be explained by alternative theories (Appendix 2), across and within the phases of a crisis (Cornforth, 2005; Sundamurthy & Lewis, 2003). This is in line with the growing body of experts who argue that governance in not-for-profits should be looked at from a multi-paradigm perspective (Cornforth 2005, Speckbacher, 2008; Stone and Ostrower, 2007; Miller-Millesen, 2003). Also, we observed the applicability of the agency theory during the period when the relations between board and staff were very distrustful (Phase 2:

crisis trigger). We believe that there is a need to study in more detail the co-habitation of multiple perspectives and to scrutinise the literature on trust and distrust to deepen our understanding of board/staff relationships and to improve governance (Vlaar et al., 2007).

From a more practical point of view, I wish to share with you some of our thoughts about what might be done in terms of board/staff relationships and in terms of processes to put in place in order to prevent crises.

First, we would argue that board members need to be more proactive and to challenge the Executive Director. From our diagnoses, we saw that passive boards act as subordinates to the Executive Director. Even if boards face a very charismatic Executive Director, they need to receive or to ask for information. From the questionnaire we used to test our framework, we deduced that boards are not sufficiently monitoring external dimensions that could affect their financial health. The economic situation, legal aspects concerning taxes, insurances, reporting, etc., all need to be observed more closely in order to prevent situations that could become problematic.

Second, we would like to see a more interactive relationship between boards, management teams and funders. It seems clear from both our diagnoses and our interviews that funders (Ministry of Culture, Arts Council) are major stakeholders that have an influence on the financial health of arts organisations. Therefore, funders should be part of the governance framework and considered as one side of the triangle. Funders are external to the not-for-profits but their involvement is much more important than other external dimensions, and they might reflect their importance by asking, in a more systematic way, for information from the board and the management team. For example, funders might want to see strategic planning, risk-control processes and budgets. In that sense, funders can be agents of change, helping boards and staff to be proactive. In that way, strategic planning (weakly understood according to the answers to our questionnaire) might become clearer and more used in not-for-profit arts organisations.

To improve governance, we believe that a combination of trust and distrust might be key to balancing relations between board and staff. It seems that the Executive Director will always be the person (along with his team) with the knowledge and the expertise to inform board members about activities, risks and possible consequences. However, boards need to be able to challenge the artistic vision and to ask "why" the decision should be taken instead of just asking "how" it will be done.

From our interviews in the two research projects, we also see a need for better communication between the expectations of Executive Directors and the expected roles of board members. If managers are seeking "fundraisers", then they have to communicate that need when looking for new members. The importance of selecting board members with a specific profile that suits the needs of the organisation is crucial. We advance that in order to meet the multiple objectives of a not-for-profit arts organisation, an equilibrium between three profiles might best serve the entity: an *artistic* profile close to the mission, meaning a person who

knows the artistic field and who is able to challenge the manager; a *business* profile, meaning a person who has the aptitudes and experience to measure risks; and a *fundraising* profile, meaning a person who has a list of influential people who will be able to help enhance the financial capabilities of the organisation.

As a concluding remark, we could not confirm that good governance would prevent all financial crises, but at least, we had observed that bad governance can precipitate crises. My research with colleagues has shown so far that governance in arts organisations is a quite complex phenomenon and more studies are needed to document roles and responsibilities that make a difference. We also have to spend more time in board rooms looking at board/staff behaviours in order to get a clearer sense of the governance relationships and dynamics that shape good or bad governance in a setting where the mission is artistic and the constraint is limited resources.

Remember: It is easier to have a good board than to have good governance!

Appendix 1: A comparison of theoretical perspectives on organisational governance

Theory	Interests	Board members	Board role	Model
Agency theory	Owners and managers have different interests	Owners' representatives	Compliance/ conformance: safeguard owners' interests, oversee management, check compliance	Compliance model
Stewardship theory	Owners and managers share interests	Experts	Improve performance: add value to top decisions/ strategy, partner/ support, management	Partnership model
Democratic perspective	Members/the public contain different interests	Lay representatives	Political: represent constituents/ members, reconcile conflicts, make policy, control executive	Democratic model
Stakeholder theory	Stakeholders have different interests	Stakeholder representatives: elected or appointed by stakeholder groups	Balancing stakeholder needs: balance stakeholder needs, make policy/strategy, control management	Stakeholder model
Resource dependency theory	Stakeholders and organisation have different interests	Chosen for influence with key stakeholders	Boundary spanning: secure resources, maintain stakeholder relations	Co-option model
Managerial hegemony theory	Owners and managers have different interests	Owners' representatives	Largely symbolic: ratify decisions, give legitimacy, managers have real power	Rubber-stamp model

Source: Cornforth C. (2005) *The Governance of Public and Non-Profit Organisations – What do boards do?* Routledge, London. (p. 12)

Appendix 2: summary of each phase of the crisis

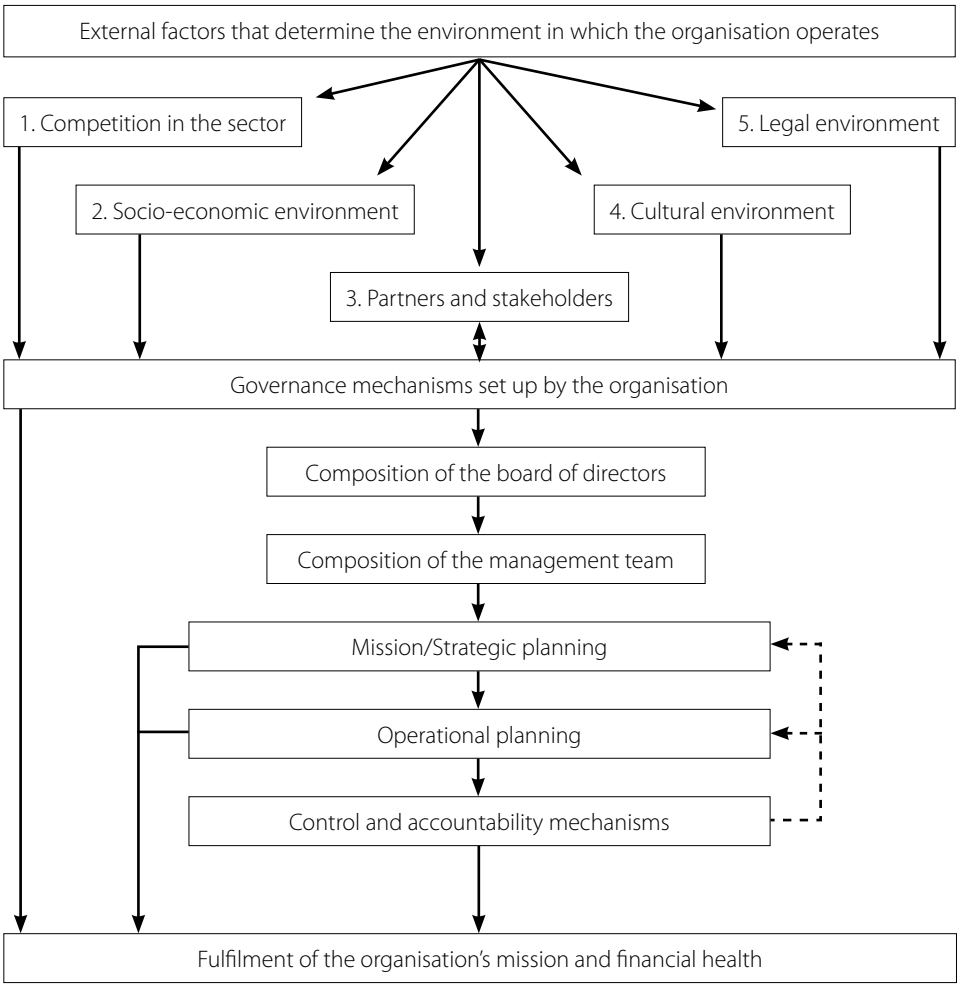
Phases of the crisis	Board involvement (1)	Dominant theoretical approaches	Type of relations between Board and staff
Phase 1: ***Before the storm***	• accepting and passive, • board members are thrilled by the artistic mission and by the success achieved; they focus on art, • the Executive Director is trusted; is dominant and controlling, • limited financial information.	Managerial hegemony theory	Trust
Phase 2: ***The crisis trigger***	• sudden and unwelcome surprise from creditors or suppliers disrupts trust in Executive Director, • request for government bail-out generates consultant intervention, • clarity regarding direction of action, perhaps as a result of consultancy, • change in executive staff and/or board leadership, • negotiation with external stakeholders and direct management of the organisation directly.	Resource dependence theory and Agency theory and Stakeholder theory	Distrust
Phase 2: ***Continued survival***	• balanced relationship with new Executive Directors and transformed board membership (internal vs. external), • seeking of outside advice through advisory committees, • decision to function within financial constraints and to seek some private funding.	Stewardship theory and Resource dependence theory	Trust and Distrust

(1) Taken from Reid W, and Turbide J. (forthcoming) Board/Staff Relations in a Growth Crisis: Implications for Governance, *Nonprofit and Voluntary Sector Quarterly*.

Figure 1

Preliminary Systemic Framework

Influencing factors in the organisational and financial health of organisations



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Professor Johanne Turbide acknowledges research support from the Community-University Research Alliances (CURA) funded by the Social Sciences and Humanities Research Council of Canada (SSHRC). She wishes to address a special thanks to Christine Harel, coordinator of the CURA grant and Wendy Reid and Claude Laurin co-researchers on the CURA grant.

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