Size does matter: The impact of size on governance in arts organizations

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Biographies
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Abstract
This paper documents governance conformance and performance in small to medium sized arts organizations in Australia, where artistic development, innovation and stakeholder relationships inform the governance activity central to achieving their mission. The key question of this study is whether the governance of large and small arts organizations differs as they balance competing needs in order to achieve their artistic vision. The results of the study provide evidence that size is a critical factor in how boards govern arts organizations. Using material from indepth interviews and surveys, the paper argues that governance conformance and performance are in a state of constant tension with artistic development, and governance processes are dependent on organizational size and resources.

Keywords
nonprofit, arts, governance, Australia

Introduction
The boards of directors of nonprofit arts organizations are increasingly seen as providing a crucial role of stewardship to the organization. This role is dependent on their skills and commitment not only in areas of legal and moral requirements but also in organizational effectiveness and entrepreneurship (Hennan and Renz, 2000). Less attention has been paid to nonprofit arts organization governance in the research literature than to nonprofit governance generally or to corporate governance. Our research showed that there is a need to learn more about nonprofit arts board governance, such as how organizational size impacts on nonprofit arts board governance, and how large and small arts organizations evaluate competing needs in order to balance financial viability and achieve their artistic vision.

In this article, we report on the results of a recent study into small to medium nonprofit arts organization boards and compare the results to reports on large nonprofit arts organization boards. The article examines the impact of size on governance and how size influences board performance and the application of the artistic vision as a driving force. While the study was undertaken in Australia, governance is an international issue and Australia has followed the United States and Britain in shaping its governance approaches. This article therefore has relevance to other countries of similar history, traditions and organizational approach.
Background

It is not surprising that attention is directed towards nonprofit governance, with fraud, intense questioning of responsibility and accountability and the duties of directors at the forefront of debate on performance and conformance (Radbourne, 2003a; Rentschler, 2004; Rentschler and Radbourne, 2008). However, the academic debate has been largely silent on the governance contribution of nonprofit arts boards, especially on studies of small and large arts organizations. Organization size has been recognized as an important factor in governance generally (Bennett and Robson, 2004), in the sport governance literature (Amis and Slack, 1996) and in voluntary and nonprofit organizations (Alexander and Weiner, 1998; Rochester, 2003). The examination of small and large sized nonprofit arts organization governance presents a counterbalance to the skew in the literature to large corporation governance matters. Research in management has suggested that small to medium organizations understand strategy but are informal in strategic direction and pragmatic and flexible in reaction to customer requirements (Kalandaridis, 2004; McColl-Kennedy et al, 2008; Pearson and Ellram, 1995). As smaller organizations have fewer resources, they are less likely to have support activities, which, in governance terms, includes extensive sub-committees and other compliance requirements available in large organizations (Alexander and Weiner, 1998). While small organizations are less formal in their governance overall, their boards “serve as the collective conscience of their organizations, ensuring that the basic mission [is] sustained” (Alexander and Weiner, 1998, p. 223). In summary, there is evidence in general management and marketing studies that small to medium organizations operate differently from large organizations. The research for this study questions the extent to which such differences also apply to governance in small to medium nonprofit arts organizations.

This study used mixed methods of survey, case studies and secondary data to inform the findings. Governments and industry bodies across the world are under political and social pressure to intervene and reform laws relating to governance conformance in order to influence governance performance. The results of this study influenced government policy in Victoria, Australia, leading to a revision of performance and conformance indicators in nonprofit arts boards. The different approach to governance of arts organizations of differing sizes adds to knowledge on governance in the nonprofit sector.

Definitions

While nonprofit organizations have a distinctive and a unique set of characteristics and functions that require a different governance framework compared with corporate organizations and the public sector, many of the features of good governance are relevant to all three sectors. The Auditor-General in Victoria defined governance in the public sector as “more complex, having to satisfy a broader range of political, economic, environmental and social objectives, according to a greater variety of requirements, influences and public expectations than does the private sector” (Cameron, 2004).

Good governance in the non profit arts has been described 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. This definition has been adopted for this research as it links governance to artistic vision (O’Neil, 2002). This is further explained in studies by Bosch (1995) and Hilmer (1993) that link the importance of the two roles of performance and conformance relevant to governance. Performance covers the strategic contribution of the board to achieving organizational vision. The vision of an organization is considered to be its commitment to “making a difference in the world in which it operates” (Sheehan, 1996, p. 113). In the nonprofit arts, the means by which boards make a difference are in the achievement of artistic vision. Meeting the needs of the artistic vision is part of good governance in arts organizations. Conformance includes the monitoring and control functions of the organization ensuring that the organisation works within established frameworks so that it can perform effectively. These two roles enhance the organization’s legitimacy and help it achieve goals. Hence, the interrelationship between performance, conformance and artistic vision is integral to arts organization performance.
Principles of Corporate Governance and Good Practice

The Australia Council, the Australian Federal Government’s arts funding and advisory body, established eight principles of corporate governance and good practice for the Major Performing Arts Board in 2004. The Major Performing Arts Board oversees the funding of Australian large arts organizations. These principles are based on recommendations of the Australian Stock Exchange Corporate Governance Council and are listed in the following table.

Table 1. Principles of Corporate Governance and Good Practice

<table>
<thead>
<tr>
<th>Principle</th>
<th>Statement</th>
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</thead>
<tbody>
<tr>
<td>Principle 1</td>
<td>Lay solid foundations for management and oversight</td>
</tr>
<tr>
<td>Principle 2</td>
<td>Structure the board to add value</td>
</tr>
<tr>
<td>Principle 3</td>
<td>Promote ethical and responsible decision making</td>
</tr>
<tr>
<td>Principle 4</td>
<td>Safeguard integrity in financial reporting</td>
</tr>
<tr>
<td>Principle 5</td>
<td>Recognize and manage risk</td>
</tr>
<tr>
<td>Principle 6</td>
<td>Encourage enhanced performance</td>
</tr>
<tr>
<td>Principle 7</td>
<td>Remunerate fairly and responsibly</td>
</tr>
<tr>
<td>Principle 8</td>
<td>Recognize the legitimate interests of stakeholders</td>
</tr>
</tbody>
</table>

The principles generally translate into a Board Code of Conduct, a formal statement delegating certain authority to management, a plan for the year’s business of the board, a committee system to support the board (particularly a Finance and Audit Committee), and a process of securing a range of skills in the composition of the board. It is expected that boards spend more time on their business planning and vision, and are artistic leaders in their art form category (McKenna, 2008). These principles lay sound foundations for governance in large arts organizations. They provided the basis for the questions developed in the survey for small to medium arts organizations and the analysis of the results.

Methodology

The aim of this research was to identify the attributes of governance in small to medium sized arts organizations, and to determine if the performance of these organizations in achieving their mission was influenced by size. The research questions were:

1) How do small to medium sized arts organizations demonstrate conformance and performance of governance?
2) Does organizational size influence conformance and performance of governance?
3) What are the attributes of good governance in the small to medium sized arts sector?

The study used a mix of qualitative and quantitative methods in order to answer these three research questions. Background research entailed development and administration of a 39 item questionnaire designed to identify the characteristics of nonprofit arts boards’ performance and conformance. The survey data was supplemented with case studies to add a rich layer of analysis to the cross-sectional data. The case studies involved analysis of annual reports and strategic plans in order to examine financial and non-financial performance of the organizations and to build a framework for key board attribute variables such as sources of board membership, composition and tenure. Both the survey and case studies were used to obtain data on board processes such as appointment procedures and board effectiveness, and perceptions of the board’s use of members’ diverse skills. Secondary industry data were made available by the state government arts department, Arts Victoria, which confirmed the demographic and financial data provided by the survey or interviews. This methodology reflects the complexity of board processes and decision-making as recognised by Forbes and Milliken (1999) and Daily, Dalton and Cannella (2003).

The sample size was drawn from the population of Victorian arts organizations which represents a significant twenty percent of the Australian population of arts organizations, and includes:

i. state agencies/statutory authorities;
ii. major non-government arts organizations, defined as having turnover in excess of $1 million and yielding up to about eleven organizations in Victoria;
iii. small to medium non-government arts organizations, of between 50-80 in number;
These three groups all have a relationship with government and thus conform to the definition of a nonprofit arts organization used in this study. The online survey was directed at the third group, and invited board members and the CEO/manager to respond. The case studies included interviews with the board chair and the CEO/manager. The comparative analysis with large organizations included organizations from the first and second groups in the population.

**Survey results**

The survey conducted in late 2006 of nonprofit small to medium arts organizations in Victoria, presented data on the demographics and characteristics of the boards, the characteristics of board directors, their governance practices including conformance and their performance as a board. Eighty-two responses were received from arts boards and chief executive officers. The summary data from the survey of the small to medium arts organizations revealed that most were in metropolitan areas, had a turnover under A$1 million and were most likely to be incorporated associations. There were equal numbers of men and women on arts boards, which is similar to government/public sector boards but significantly different from the composition of corporate/private sector boards. The most common size of the boards was between nine and twelve members. The majority (77%) of respondents confirmed the board size as "about right". The highest response to the number of board meetings per year was 39% who met more than eleven times. Board members were typically tertiary educated and claimed to take their board role seriously, often sitting on only one board.

A leitmotif emerged from responses: artistic vision was perceived to be of prime importance in assessing performance of small to medium nonprofit arts organization boards. The results are presented under the headings of the eight principles of corporate governance and good practice developed by the Australia Council for large arts organizations, including discussion of the leitmotif of artistic vision.

**Principle 1: Lay Solid Foundations for Management and Oversight**

Establishment of sub-committees lays a sound foundation for management and oversight. Respondents were asked to identify the sub-committees of their board, with the most common being finance (25%) and artistic/programming (16%) and marketing and fundraising (12% each). Fewest respondents identified constitutional, legal, audit and remuneration sub-committees. These sub-committees are mostly advisory to the board (88%) with only 12% having the authority to make decisions on the board’s behalf. Approximately half of these sub-committees contained external members, indicating the small to medium sized arts organizations seek expertise outside their paid and board member resource.

Method of board selection is another indicator of solid foundations for management and oversight. Respondents were asked to specify the methods used to select board members. Multiple answers were accepted (a total of 174 responses were made) with the most common method being merit or skill. Representative selection was the second most frequent followed by patronage and jurisdictional selection. Representative selection means selecting board members by the group they represent, whereas patronage refers to financial support, and jurisdictional refers to the geographical region board members represent. Those responses in the ‘other’ category (21) described age, time availability, gender, election, willingness, and artistic experience as reasons for selection. This recruitment method links closely to the later questions on board member skills and composition.

**Principle 2: Structure the Board to Add Value**

Structure of the board relates to membership responsibility and accountability. In order to assess conformance and performance of governance, it is necessary to understand how boards perceive their duties and how they demonstrate their responsibilities and accountability. A number of questions were asked to describe the duties of the board in relation to annual review, adoption of statements regarding strategic discretion, assessment of board performance, policies and codes for the role and performance of the board. The highest positive response confirmed that the board had adopted explicit statements to describe their organization’s purpose and strategic direction, and most indicated their board
undertook an annual review. However, only 28% of respondents indicated the board had written performance objectives with which to assess the board’s performance. Three-quarters of boards demonstrated the part they must play in the organization but less than half of respondents indicated the board had defined how it would operate, in relation to job description and code of conduct. A percentage of respondents expressed uncertainty to the answers to these questions, with a ‘Don’t Know’ response ranging from 0% to 10% across the six questions (see Table 2). Overall responses to this set of questions indicated that board members generally understood their duties.

Table 2. Board duties and accountability

<table>
<thead>
<tr>
<th></th>
<th>Yes (%)</th>
<th>No (%)</th>
<th>Don’t Know (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>The board has adopted explicit statements that describe the organization’s purpose and strategic direction</td>
<td>91.46</td>
<td>8.54</td>
<td>0.00</td>
</tr>
<tr>
<td>The board demonstrates the part it must play in the success of the organization</td>
<td>75.61</td>
<td>14.63</td>
<td>9.76</td>
</tr>
<tr>
<td>The board has adopted policies that describe its own role and responsibilities</td>
<td>63.41</td>
<td>31.71</td>
<td>4.88</td>
</tr>
<tr>
<td>The board undertakes an annual review</td>
<td>62.20</td>
<td>32.93</td>
<td>4.88</td>
</tr>
<tr>
<td>The board has defined how it will operate (eg. job description, code of conduct etc)</td>
<td>43.90</td>
<td>48.78</td>
<td>7.32</td>
</tr>
<tr>
<td>The board has written performance objectives against which it assesses its own board performance</td>
<td>28.05</td>
<td>64.63</td>
<td>7.32</td>
</tr>
</tbody>
</table>

Principle 3: Promote ethical and responsible decision making
Ethical and responsible decision making is seen in further defining the characteristic duties and accountabilities of boards in the role they most commonly set themselves. Respondents were asked a series of “yes/no” questions about the role of the board. The highest agreement (over 90%) was for the questions relating to members sharing fully in discussion and decision making, the encouragement of different or conflicting views, the active participation from all members during meetings, and a focus on the interests of the organization as a whole during deliberations. Less than half (43%) of respondents indicated their board had an orientation program to assist new board members in becoming full contributors to the board, and only 40% of respondents said their board had criteria for deciding which matters justified its time and attention. 74.39% of respondents indicated members left meetings with a collective sense of achievement, but 19.51% answered they were unsure if this were true or false. These questions related to strategic planning, teamwork, trust, relationships and group decision-making. Responses with the highest agreement relate to matters to do with equity and inclusion. The responses with the lowest agreement relate to matters to do with strategic thinking and planning. The responses suggested that there is a need for more development of small to medium sized arts organization boards in building strategic capacity and in orientation programs for new board members. It was found in the case studies that ethical and responsible decision making was evident on small to medium boards, but that a sound framework for it was sometimes lacking.

Principle 4: Safeguard Integrity in Financial Reporting
Conformance capacity is generally attributed to technical skills, such as financial reporting. It is assumed that, if these skills exist, then board performance is enhanced, safeguarding integrity. However, arts and advocacy skills are rated the highest in terms of importance. This suggests that these are not technical skills (rated lowest), but are inherent skills required by boards of small to medium sized arts organizations to achieve their goals and audience satisfaction. Advocacy skills support another response of “funders” as the most consulted group. Again, the responses to this question are consistent with those in previous questions where finance and the art are two matters that are juggled in order to achieve balance and quality outcomes. Advocacy is a skill that is important in lobbying stakeholders and presenting the arts organization’s case in a dynamic and rapidly changing
environment. Advocacy can be a key skill in obtaining increases in funding and promoting the art form to the media. Further investigation in case studies revealed the use of external expertise or staff members for these functions of legal advice and accounting services, thus the lower ranking of these skills.

Following the identification of areas of expertise, and a rating of importance of skills, respondents were asked their agreement with statements about their board’s capabilities, experience and skills to achieve effective governance. On a scale of 1 to 7 from strongly disagree to strongly agree, there was agreement of around a mean of 5. This is not as high as the mean result for important skills of board members (see Table 4).

Figure 1. Board capabilities

![Bar chart showing board capabilities](chart)

Two critical success factors for small and medium-sized arts organizations are acknowledged as artistic success and customer/audience satisfaction (Radbourne, 2003a; 2003b). Respondents were asked if they agreed with questions of the board’s understanding (1 “Strongly Disagree” to 7 “Strongly Agree”) of these two critical success factors: artistic and customer needs. The question: “The board understands challenges in achieving artistic success” received a mean rating of 5.65, while the question: “The board understands customer needs of the organization” received the slightly lower rating of 5.43.

Then, having agreed to these as success factors, respondents were asked to rate the success of their organization in terms of artistic outcomes, financial performance, organization and management, and learning and development. Ratings (ranging from 1 “Not Very Successful” to 5 “Very Successful”) showed that boards believed their organizations were most successful achieving artistic/cultural outcomes (a mean rating of 4.62), followed by financial performance, organizational processes and management, and learning and development (see Table 3).

<table>
<thead>
<tr>
<th>Table 3. Board success</th>
<th>Mean Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Artistic/Cultural Outcomes</td>
<td>4.62</td>
</tr>
<tr>
<td>Financial Performance</td>
<td>3.93</td>
</tr>
<tr>
<td>Organizational Processes and Management</td>
<td>3.82</td>
</tr>
<tr>
<td>Learning and Development</td>
<td>3.77</td>
</tr>
</tbody>
</table>

**Principle 5: Recognize and Manage Risk**

Findings on ethical and responsible decision making were compared to responses on the amount of time spent on issues coming to the board. The highest response was that most board time was spent on
current issues (37%), followed by operational matters (25%), strategy (24%), and compliance matters (15%). These suggest that small to medium sized arts board members may be driven by crises in current issues, rather than strategy. While this is not surprising, when considering the size of these organizations, their resource restrictions and the constant pressure they are under to maintain financial viability and to focus on artistic development, it is of concern in relation to governance, risk management and decision making. The boards are voluntary, but they are expected to provide the same level of performance and conformance as members of large, well resourced boards. This presents constant decision making challenges to small to medium organization boards.

**Principle 6: Encourage Enhanced Performance**

Participants were then asked who the board consults to obtain opinions about the organization’s direction and performance. “Funders” was the most common answer (82%) and customers/audiences second. Both these groups provide resources for operation, and indicate the dependencies of these small to medium sized arts organizations. Particular stakeholders had a relatively high result (70%) and warranted further exploration to identify who and why. Sponsors were the least asked group (40%) indicating a low sponsorship relationship, possibly driven by the lack of capacity of these organizations to service sponsors.

When asked who the board was accountable to for performance, respondents provided a range of answers including members, artists, the community, funding partners, Australian Securities and Investment Commission and the organization itself. The highest frequency of responses was for funding partners and members of the organization.

**Principle 7: Remunerate Fairly and Responsibly**

Fair and responsible remuneration is a constant pressure for small to medium arts boards. This is emphasised in responses to questions about the skills and capabilities of board members. The boards are characterized by the expertise of their members, which was strongest in artistic expertise, organizational management and project management. When asked to rate the importance of various skills for a board member to possess, the most important skill was arts (mean rating 6.16 on a scale of 1, Not Very Important to 7, Very Important) followed by advocacy and finance. The least important skills were human resource management (5.05), accounting (5.12), and legal (5.41). These skills gaps may have implications for fair and responsible remuneration in this cash-strapped sector. Further examination of this issue was conducted in the case studies.

<table>
<thead>
<tr>
<th>Table 4. Important skills for a board member</th>
<th>Mean Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Arts</td>
<td>6.16</td>
</tr>
<tr>
<td>Advocacy</td>
<td>6.11</td>
</tr>
<tr>
<td>Finance</td>
<td>6.05</td>
</tr>
<tr>
<td>Marketing</td>
<td>5.70</td>
</tr>
<tr>
<td>Fundraising</td>
<td>5.60</td>
</tr>
<tr>
<td>Legal</td>
<td>5.41</td>
</tr>
<tr>
<td>Accounting</td>
<td>5.12</td>
</tr>
<tr>
<td>Human Resource Management</td>
<td>5.05</td>
</tr>
<tr>
<td>Other</td>
<td>4.35</td>
</tr>
</tbody>
</table>

**Principle 8: Recognise the Legitimate Interests of Stakeholders**

The legitimate interests of stakeholders can be understood through the industry sectors represented on small to medium arts boards. Respondents were asked to indicate the industry sectors represented by the members of their respective boards. The artistic sector was highest, followed by community, with government representation the lowest. This was expected of small to medium arts boards, which usually represent a niche art form with a close relationship with their artistic and community stakeholders.
Table 5. Industry sectors included on board

<table>
<thead>
<tr>
<th>Industry Sector</th>
<th>Yes (%)</th>
<th>No (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Artistic</td>
<td>93.90</td>
<td>6.10</td>
</tr>
<tr>
<td>Community</td>
<td>87.80</td>
<td>12.20</td>
</tr>
<tr>
<td>Nonprofit Enterprise</td>
<td>78.05</td>
<td>21.95</td>
</tr>
<tr>
<td>Commercial Enterprise</td>
<td>71.95</td>
<td>28.05</td>
</tr>
<tr>
<td>Employees</td>
<td>51.22</td>
<td>48.78</td>
</tr>
<tr>
<td>Government</td>
<td>39.02</td>
<td>60.98</td>
</tr>
</tbody>
</table>

In order to relate the sector representation to performance, respondents were then asked to rate the importance of each sector in their board’s composition. The artistic sector was again ranked first (a mean rating of 6.28, out of a possible 7), with the perceived importance of remaining sectors decreasing with membership size. Government representation was again ranked last, with a mean importance rating of 4.16. Small under resourced organizations, with difficulties attracting board members who have the time and expertise to offer in strategic organizational development, may be inhibiting development by a preference for artistic skills and knowledge on their board.

The findings of Tables 5 and 6 prompted further investigation in the case study investigation. They suggest that small to medium sized arts organization boards have reduced links to government and business. Longitudinal research of annual reports suggests that this rating of importance combined with a focus on current issues as opposed to strategy may inhibit growth and sustainability.

Table 6. Importance of industry sector on board

<table>
<thead>
<tr>
<th>Industry Sector</th>
<th>Mean Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Artistic</td>
<td>6.28</td>
</tr>
<tr>
<td>Community</td>
<td>5.96</td>
</tr>
<tr>
<td>Nonprofit Enterprise</td>
<td>5.39</td>
</tr>
<tr>
<td>Commercial Enterprise</td>
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</tr>
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<td>Employees</td>
<td>4.96</td>
</tr>
<tr>
<td>Government</td>
<td>4.16</td>
</tr>
</tbody>
</table>

In summary, while the survey data is the cumulative response of the board members and CEOs of the small to medium sized sector arts organizations, it is assumed that their identification of artistic success as higher than financial and management success is an accurate interpretation of the sector’s achievement. Overall, the most significant findings in this survey revolved around the importance of artistic skill and knowledge for board directors and the organization’s success as dependent on artistic success. These findings mean that some of the eight principles of corporate governance and good practice in small to medium arts organizations may not have as sound foundations as for arts boards in large organizations.

Governance in large arts organizations

In contrast, the most recent data on the performance of large arts organizations in Australia reveals a heavy emphasis on financial performance and a reduction in what was called “artistic vibrancy”. These thirty large organizations currently have a turnover ranging from A$5 million to more than A$20 million, and are emerging from an eight year investment by the federal and state governments to improve their conformance and performance.

The major organizations, as they are called, have been involved in a capacity building strategy funded by the Australia Council for the Arts on recommendation from the “Nugent Report” Securing the Future in 1999. The aim was to increase their financial viability and they were required to develop a business plan linked to their budget, report quarterly to the Australia Council, and report annually against the eight corporate governance and good practice listed earlier in this article.
Over the six years 1999 to 2006, their net assets increased from A$17.1 million to A$66.2 million. The number of companies with net assets greater than A$1 million increased from six in 1999 to nineteen in 2006. In 1999 only three companies had reserves in excess of the recommended 20% of annual expenditure. By 2006 fourteen companies had achieved this target. Yet a review based on 2004/05 data, showed that “while the companies had successfully increased their income from non-government sources and strengthened their financial positions, this had required compromises in terms of artistic quality and access” (Major Performing Arts Board, 2008, p. 6). The companies reported financial constraints that impeded developing young artists, creating and performing quality new works, domestic and international touring, and education programs. The report from 2006 data showed:

- Increase in new works, yet decline of Australian works,
- Marginal increase in box office and fee income, and
- Decrease in private sector income.

In 2007 further government base funding was provided to address these areas of artistic and audience development. In contrast, the small to medium sized companies focus on new Australian works and new productions, developing young performers, touring via sponsorship of festival or agency (including international), and very close relationships with audiences and the private sector. They exhibit a tendency to take greater artistic risk and demonstrate creative entrepreneurship which interdependent stakeholders value highly. The recent Australia Business Arts Foundation Report (July 2008) shows that “smaller organizations rely more on private support than larger counterparts” (p.12), a striking contrast to the government investment relied on by large arts organizations.

Case study data

The small to medium sized sector governance research included twenty interviews with eight case study organizations, which supported survey data on the role of the board in achieving success in their artistic missions. The in-depth interviews with the board chair and general manager/CEO were intended to elicit qualifying comments on the survey responses. This provided the opportunity to ask “why” a particular action was taken or put in place, and to balance responses with roles, environment, mission, market and size. While cross tabulation in the survey responses had revealed some of this, it did not provide the rationale, motivation or outcome of decision making. By selecting organizations and documenting secondary data on those organizations, then probing through interviews, case studies were able to be developed. The case study organizations were selected to represent diversity of structure, art form, size, geographic distribution, and duration of existence. All were funded by Arts Victoria either for operations or projects. All were designated as small or medium sized organizations, and the findings reinforced that size affects interpretation of governance.

The interviews revealed that there is strong support by the boards for their general manager or chief executive officer. High level communication skills are demonstrated in board discussion and between board and management. The nominated style of board performance was “engaged” and “certifying”, which was stronger in the case study cohort than in the survey result. Most organizations had an orientation pack and instructions or guidelines for new board members. Formal induction was hindered by resource constraints. All interviewees understood the concept and practice of governance, and of strategic planning. The size of the organization influenced the organization’s ability to implement effective governance and procedures. Smaller organizations were less explicit in regulating governance processes. For all these organizations, good practice governance includes artistic vision and democratic processes for decision-making and a culture of trust.

Common themes emerged from the interviews. These were clearly linked to the size of the organizations and their responsive relationship to the environment in which they operated:

- Resourcing
- Leadership
- Trust
- Role of board members
Resourcing was frequently referred to in the tension the board faces in achieving the artistic vision and mission with inadequate resources. Small to medium sized organizations fulfilled a specific artistic need in a niche market. Often the market segment had limited resources to pay for the artistic product. This required the organization to be innovative in using scarce resources, to achieve compliance through creative use of people resources, and to seek sources of revenue and partnerships outside the usual consumer market. Many board directors/members were from the small to medium sized sector (not necessarily in the arts), that is self-employed, or in microbusinesses, and while they had an acute understanding of the organization’s needs and plans, and the required skill set, they also had limited time to invest. The following quotation from an interview with one board chair exemplifies this.

You probably do a lot more as the chair than a lot of the other board members, but everybody has got their priorities, and it has to fit in some way, so it is difficult on that level to raise money for sponsorship and publicity — it is really something you have to be at all the time. You can’t just do it in bits and pieces.

Leadership was seen by these organizations as critical to achieving their goals, and to managing the change and transformation these organizations experience in delivery of their arts products and services. Small organizations are expected to be innovators, and drivers of a new approach to the arts, and to maintain a strong relationship to their community of stakeholders. This requires particular leadership that can deal with change (both managing and creating) and explore creative thinking and strategic thinking. In some organizations the leadership is shared and collective; in others it is charismatic and transformational. The organizations themselves often have a cult following, and leadership at board level must manage this stakeholder loyalty and reputation against resourcing the artistic vision, and compliance with regulation and funding accountabilities.

When the company went through its last major strategic planning exercise, it was the most comprehensive process the company had been through. It involved consultation with the board, with community stakeholders and the like ... The plan that came out of that was the most forward thinking plan that the company had done.

Trust, a culture of inclusiveness and transparency, a strong relationship between board and management, and a board role of engagement and insight, were repeatedly described by interviewees. It is possible that the small to medium size of the organizations, the small number of staff, senior staff, and board members, lend themselves to the need for greater transparency, discussion, communication and understanding. But the use of the word trust and descriptions of behaviors linked to trust between board and CEO, made explicit the presence of this attribute in managing the performance and compliance of governance in these organizations. Examples of levels of trust displayed by board members and their executive officer include:

One of the things there that I think we do really well is we work well as a unit and as a team, that the culture of the board is very inclusive and transparent.

and

There are major strategic decisions that I can’t make on my own, but I need to call on the board to guide me. I am trying to realise their vision, so often I will have an opinion, but I will call the board together, or a group of the sub-committee of the board and say, “Here’s the situation. Here’s what I think we should do, but let’s all sit around and see what’s the best way forward”. I think that’s a really good approach.

The role of the board members was attributed as “engaged” and “providing insight” for the organization. This was described more fully in discussions of recruitment, committee functioning, crisis and change management, and governance practice; through a consultative decision-making process; a respect and value for each member’s expertise and skills; a genuine commitment to this organization’s mission; a sensitivity to the organization’s art form; and a true practice of advocacy.
and stewardship of the organization with sponsors, audiences, funders and the community. These board directors had moved far beyond volunteers performing operational functions for a small nonprofit incorporated association. They performed their governance role with responsibility and purpose, not intervening in management, leading in times of crisis, and contributing to decision-making effectively. The functions that board members perform are related to the new, extended role that they are playing. Examples of comments include:

If I look back on when I came onto the board and what they do now really well is stay out of the artistic part of the organization ... the board looks at governance and does not get involved with what happens with staff and programming. You leave that to the CEO to handle.

and

The board now understands their role and their role is to monitor the performance of the organization and monitor my performance. Whereas previously they had a hand in everything, and now they actually know that they govern, they lead, they make strategic directions, they monitor; they're fiscally responsible. They're prepared to ask the hard questions; it is not consensus driven — it is great.

and

I want to know that somebody is actually really going to put in. We're quite upfront about the level of commitment it requires and it's not just turning up once a month to board meetings; that every member of the board has to be on a subcommittee; that they have to be active on that subcommittee.

Conclusions
There are indeed differences in governance in arts organizations of different sizes. The strongest reason nominated for joining a small to medium arts board was a desire to make a contribution to the community and to acknowledge the challenges of achieving artistic success. The boards are small, meet regularly throughout the year, are selected on merit, are accountable and consult stakeholders. Many boards are “engaged” in their manner of operation and maintain open communication with senior management.

Organizational size does influence the conformance and performance of governance. When considered against the eight principles of corporate governance and good practice, stronger foundations need to be laid for management and oversight, board structure and recognizing and managing risk. This is not surprising given size and resource constraints. However, board members understand their roles and are responsible in carrying them out. The issues arising from this research point to soundly performing boards in most instances, but within a framework of a compliance environment that can take time away from strategic issues, and with financial resources that constrain them from responding to environmental changes which could optimize performance.

The 2007 report commissioned by the Australia Council, identifying factors influencing major arts organizations in the future, pointed to rising costs, the growing importance of the creative economy, changing demographics and shifts of traditional audiences to coastal regions, the attractiveness of changing technology in entertainment, growing numbers of artists and the need to support new works by new artists. This report recommends greater collaboration by major companies with other sectors, including schools, communities and training institutions, and deepening engagement with audiences.

Small to medium sized companies can provide the solution. They have strong audience relationships and represent the training ground for artists, and are small enough to work in schools and communities.

Boards need to exercise their governance with lateral thinking on strategies to achieve their artistic vision. The findings from this research suggest that large organizations driven by boards’ intent on conformance and financial objectives will grow much as the private corporate sector grows. The small to medium sized sector which replicates the creativity and innovation of economic development will
most likely be sustained by their focus on artistic development and growing private sector support. The business models in the creative industries of networking, project work, partnerships and outsourcing, may well be addressed by boards as solutions to achieve the twin governance objectives of conformance and performance.

In small and large nonprofit arts organizations the resources, stewardship and control offered by boards differ markedly. They are more direct in small organizations and use the board and resources in different ways. Performance of artistic vision is also handled differently in nonprofit arts organizations of different sizes. This is not to say that artistic vision is any less important in large arts boards than it is in small to medium arts boards, but just that it does not emerge as a key variable in large nonprofit arts boards. These results are consistent with nonprofit arts organizations seeking to "make a difference" to their organization and to the community they serve.

While these findings cannot be generalized to the entire population of nonprofit arts organizations, given the exploratory nature of the study, they are valuable in guiding future research in this under-researched field.

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