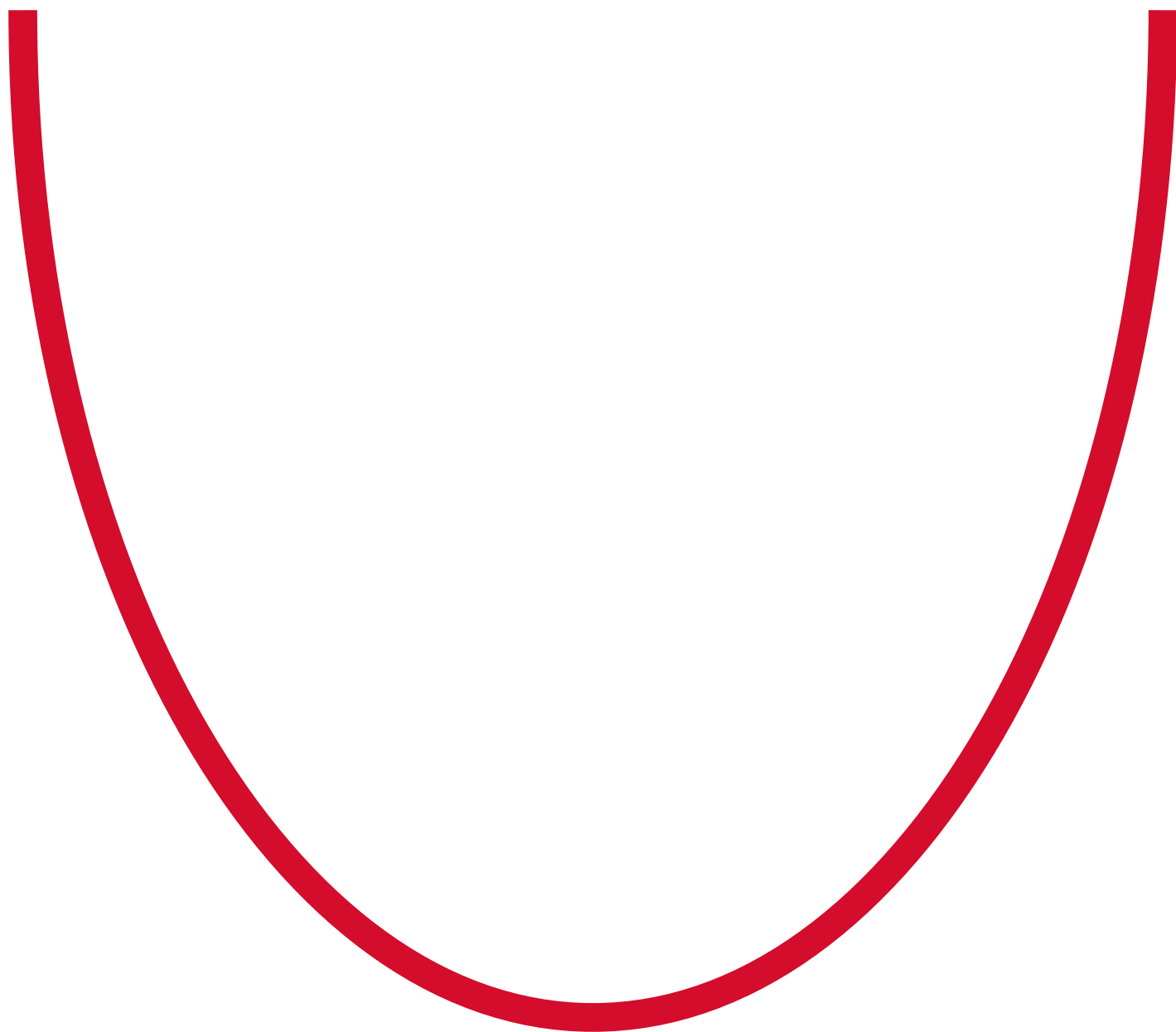


Leadership in Culture and the Arts



camunico

**Challenges and oppor-
tunities for executive teams
and supervisory boards in
the cultural sector**

Foreword

Camunico's study of cultural leadership in the arts and culture sector should be viewed in the context of the present trend of overall developments in the field of corporate governance. The growing awareness of the importance of corporate governance as such is noteworthy. Cultural organisations are just as vulnerable as any other and are also increasingly confronted with rapidly changing circumstances, which demand innovation and a timely response. This capacity is closely related to the continuity of the organisation. Leadership is expected to protect this interest. A properly functioning supervisory board is vital to oversee and support the management team of the organisation. Safeguarding continuity requires a focus on excellence and innovation.

Arts and culture are perceived as part of the public domain and a matter of huge public interest. Success and failure in this sector are highly visible, impacting the reputation of an institution and how willing the public and private sectors are to support it. Cultural institutions also increasingly have to depend on private funding, alongside public funding. This creates a dependency on others who may expect a lot in return in terms of reporting, compliance, regulation, integrity, etc.

This creates a demanding set of challenges: combining cultural excellence with management and commercial efficiency, and robustness. Organisations cannot afford to delay or compromise on these demands. To flourish in this context is a leadership challenge, so it is only to be expected that this also places high demands on the quality of supervisory boards.

The study by Camunico therefore rightly views the leadership of a cultural organisation as the combined efforts of the management and supervisory boards. The quality of that leadership is determined by their joint and individual capacities. Based on our research and experience of corporate governance in the private sector it may indeed be concluded that it is worthwhile to examine the interaction between executive and non-executive directors. It is important therefore to examine the factors and dynamics at work at three different levels: the system (i.e. duties, roles, responsibilities, competences and procedures, etc.), the group (i.e. what is the relationship between the executive and non-executive boards, how open are they towards one another, the quality of the internal discussion and decision-making) and the personal qualities (i.e. individual expertise, personality and leadership style, which may influence the board as a whole).

The management of cultural institutions will have to invest in the quality of their performance and the interaction between the executive and non-executive tiers, in the same way as institutions in the private and public sectors do. This is all the more important in a rapidly changing context bringing ever increasing risks. It is no longer enough simply to have good intentions. A supervisory role in the cultural sector is certainly not an informal appointment to be taken up alongside a more crucial daily position as an executive or non-executive director in another sector. At times it requires considerable professional dedication. Failing to perform in a supervisory role, or when a board member prevents other supervisory directors from properly performing their role, not only creates risks to the cultural organisation itself but also to the people in these roles.

In the past non-executive roles in cultural institutions were often filled by people who either contributed financially to the institution or who had access to a network of people in public and private sector organisations who would be able to contribute, or act as a sponsor or ambassador for the organisation. Over the last decade or so, in line with the trend in the commercial sector, more emphasis has come to be placed on good governance. The scope and the importance of the non-executive role has increased considerably particularly in the areas of organisational and

financial management, audits, risk management and compliance. These new concerns for the supervisory directors could largely be addressed by business leaders and professionals from the commercial sector, who already played a key role in this network. Understanding and safeguarding the organisational and financial assets of cultural institutions is often a natural part of their management expertise. Given the limited financial resources of these cultural institutions, these experts have a tendency to get far more involved in these areas, sometimes almost taking over a management role and blurring the lines between the executive and non-executive tasks. To some extent this may be unavoidable but boards need to be aware of how this may affect the interaction between management and supervisory board and consider how they can ensure that the proper checks and balances are maintained.

Besides their network role and the organisational and financial management task, supervisory directors are also responsible for overseeing and supporting the management in the core activity of the cultural institution: its artistic and cultural *raison d'être*, the product and strategy. In this area however we find that the management typically operates relatively autonomously and with little involvement on the part of the supervisory board. Non-executive directors who have been appointed primarily to provide the network and financial auditing tasks are typically not experts in the cultural field. They are devotees of the arts and culture and wish to contribute to their development, but their expertise lies elsewhere. The management, on the other hand, are generally the artistic and cultural experts. As a result the non-executive directors often will not be able to make a contribution beyond merely endorsing what the management has proposed.

The Camunico research findings appear to reflect this division between the management dominance in the artistic and cultural field and the supervisory focus in the organisational, financial and network areas. This may lead to an imbalance. Supervisory directors often find it difficult to make a meaningful contribution in the area of the artistic and cultural policies and the institution's proposition. As a result the management is often left to its own devices. Some executive directors may actually find this reassuring. But in a world of growing complexity and uncertainty we doubt whether cultural institutions are truly best served by not having a strong non-executive role in relation to their core activities. Strengthening the non-executive role in this area would require a change in the board composition of most cultural institutions, with a bigger proportion of supervisory directors who are experts in both the cultural field as well as in the development of cultural entrepreneurship.

In this context, the Camunico report provides the cultural sector with a useful tool to be able to identify and monitor relevant trends in corporate governance in the cultural field. But, more importantly, these findings may encourage executive and non-executive directors to reflect on how they fulfil their leadership role for their organisations and institutions.

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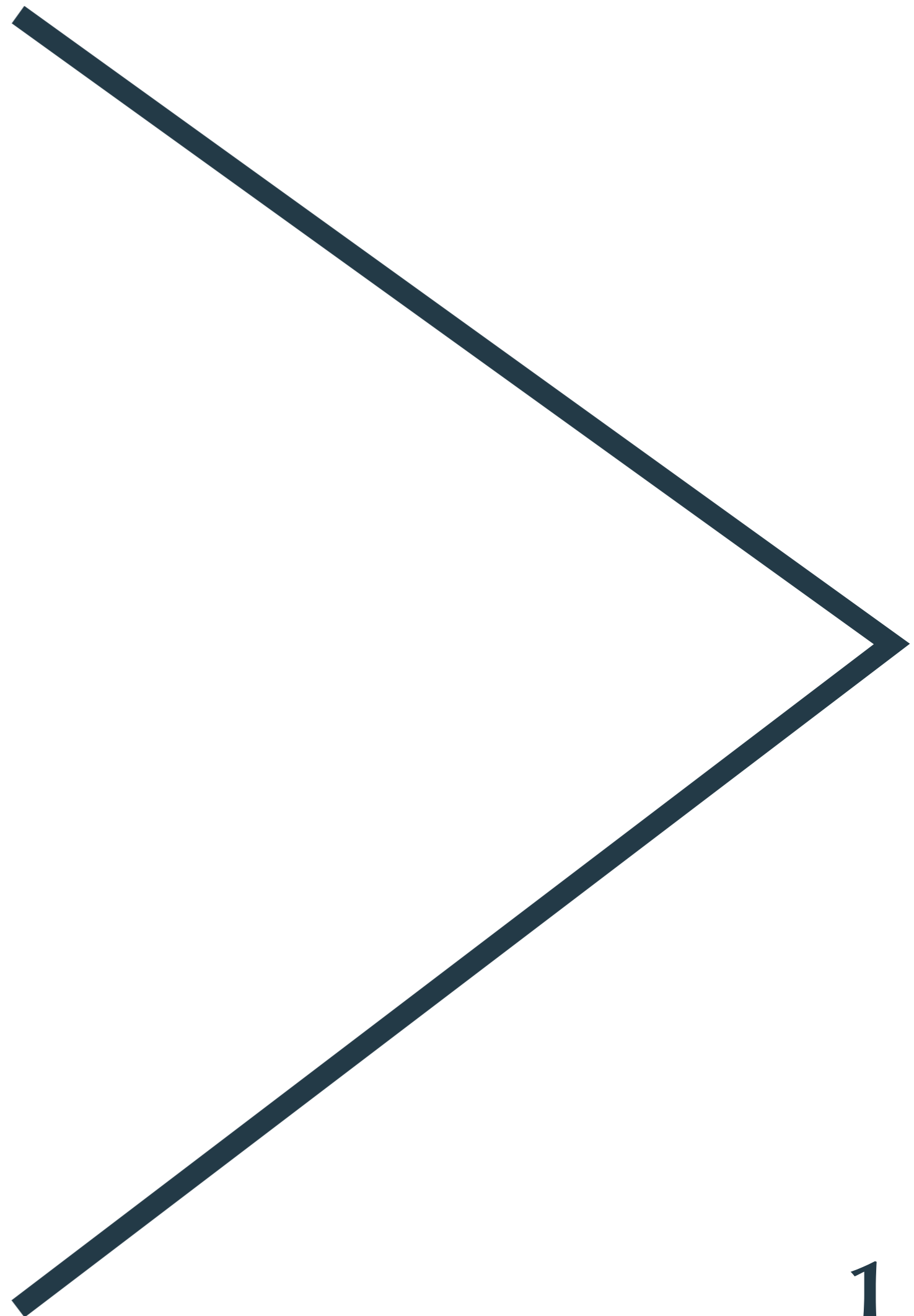
Major social, political and economic changes taking place in the culture and arts world mean that there are huge challenges facing the leadership in this sector.

To create lasting value to society is it essential that organisations develop a more entrepreneurial culture so they can respond better to external changes.

This requires a style of leadership which understands the dynamics and risk management inherent to such a culture, and which ensures that the core artistic values of the organisation are respected and that this fits into a broad social and public context.

Our research shows that executive and non-executive directors who have developed a strong sense of empathy, based on mutual understanding and respect, are more capable of responding to these changes successfully. The challenge is to create a greater diversity of individuals and relationships among the leadership which will lead to artistic and social innovation, while respecting the artistic product and values of the institution itself.

In addition to this, more than ever before, innovative development in this unique sector will need to be based on a coherent strategic policy which focuses on the long term *opportunities and risks* present in both the *internal and external* environments.

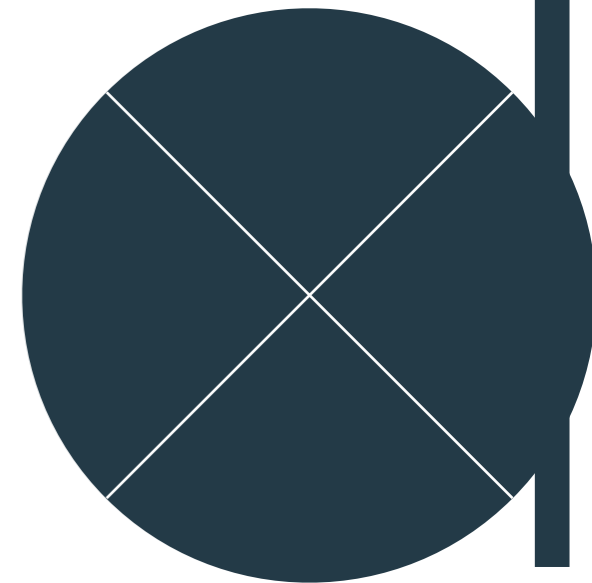
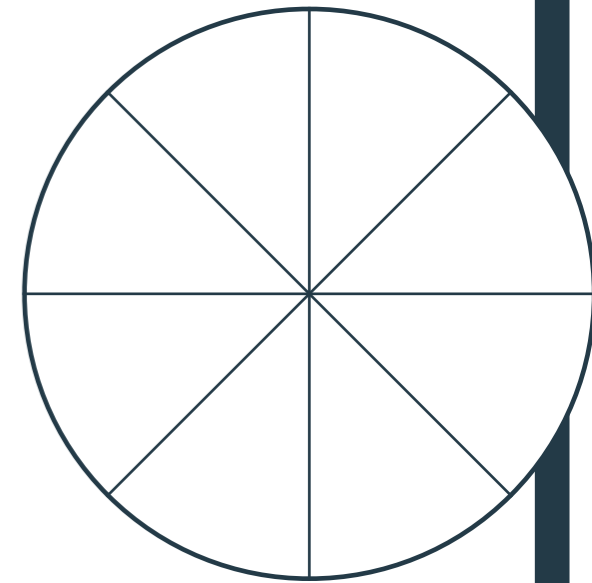


The leadership in culture and the arts also sees that it is faced with major challenges. For entrepreneurial organisations however this also offers promising opportunities.

In a time of financial crisis and the concomitant economic downturn, the Dutch government has implemented drastic spending cuts across the arts and culture sector. For some institutions these challenges have turned out to be insurmountable. Some have had to close their doors; others have had to merge to be able to maintain a viable 'critical mass'. Yet other institutions are doing their best to find a new balance between government funding, private sponsorship and charitable donations, on the one hand, and their own profitability, on the other. This means more than just looking for meagre traditional sources, it means also seeking out new sources of funding.

The government and society increasingly expect the arts and culture world to demonstrate its added value to the economy and society in general (either directly or indirectly). For entrepreneurial organisations this expectation also creates promising opportunities. The need to create real value to society and demonstrate relevance also offers an opportunity to attract new sources of funding. Examples include new commercial activities to support the institution or innovative ways of deploying its intellectual and artistic capital to create important added value to society.

To be able to develop and exploit new avenues and opportunities, management teams and supervisory boards need new competences and approaches in addition to those which have so far enabled the sector to provide such a richly varied and high quality cultural life in the Netherlands.



The purpose of our study was to provide executive and non-executive directors of cultural organisations with tools to help them develop resilient and entrepreneurial organisations that are better equipped to anticipate long term changes in the field.

Approach and method

The range of deeply-rooted individual patterns of thinking, feeling and acting in an organisation has a major impact on the resilience of that organisation. As an organisation passes through the various stages of development, it is faced with different challenges at each stage (see page 17, on the development curve). At the individual level, these shifts require a considerable ability to adapt; no one individual is capable of being equally effective everywhere and at all times.

We have analysed the range of talents and leadership qualities found in management and supervisory boards (see page 17 for further details) and directly correlated this to the ability of these management teams to make an effective contribution to the strategic challenges associated with the organisation's position on the development curve. At the same time, we looked at what impact responding to these challenges has on decision-making and risk management. We have also tried to show the interaction between the two teams, each of which responds to opportunities and strategic decision-making from the perspective of their own role, as well as how risk management is addressed in this context.



Our study consisted of the following elements:

- A questionnaire sent to all chairpersons and directors to determine where they think their institution currently lies on the development curve;
- A questionnaire sent to all executive and non-executive directors to identify their preferences in terms of thinking, feeling and acting, in order to determine where their *optimum* contribution to the development of the organisation lies;
- Personal interviews with the chairpersons and directors to analyse their perception of strategic and governance matters in the present social and economic climate.

The findings for each of the institutions were analysed and discussed with the individual supervisory and management boards. These results are confidential and each organisation may use them as they see fit. This report presents the common findings from the study. The challenges concerning governance and leadership have been highlighted, as well as where there are opportunities. We hope that the results of this study will make a useful contribution to the continuance and further development of the entire arts and culture sector in terms of its added value and relevance to society.

N.B. In this report we use the terms management teams (executive directors) and supervisory boards (non-executive directors), but the same will also apply to senior executives in other management models.

Institutions recognize that they need to adapt to a changing social, political and economic reality. Their actions however are not yet in line with this new reality.

Important concepts taken from the development curve

Our study showed that all the chairpersons and directors of the institutions which took part in the study placed their organisation in the *second* half (from stage 4 onwards) of the development curve (see page 16). Where there were differences in how the organisation was placed on the development curve, the chair always placed the institution higher on the curve than a director. This could indicate that they have a more realistic picture of both the strategic environment and the vulnerability of the organisation. The fact that the view of a director differs may be useful when critically examining or validating plans for the institution.

Some institutions, in parallel with their current development curve, have already made a start on more entrepreneurial (cultural) activities. They are working on new developments (in stages 1 & 2). The prevailing culture in the institutions we surveyed however was aimed more at *operational optimisation* (stage 4), rather than *radical innovation* (stage 1). The changing external environment, however, means that the effectiveness of these types of thinking and decision-making patterns has come under pressure.

Only one chairman indicated in his responses that he recognized the need to switch to a different development curve. To identify this new development curve, he wants to return to the fundamental principles of the organisation to find a new organisation model and core values for the future. Protecting the essence of the present organisation and supporting new activities are an inseparable part of this process and serve to enable the institution to move on to the next development curve.

There is growing awareness that the current changes also bring new opportunities but more focus on social and creative innovation is necessary to be able to identify and seize these opportunities

The management

The management teams, without exception, were highly dedicated to their institutions. They have a very personal and passionate allegiance to the vision and purpose of the creative product which the institution represents. Most of the people working in cultural institutions are extremely dedicated on a personal level to the goal of their organisation. This degree of dedication is also seen in family businesses, but far less often in a corporate environment. This, together with the relatively stable environment in which cultural institutions have been able to operate over the last twenty or thirty years, has created organisations which have been able to concentrate almost entirely on the artistic content (and its quality). Far less attention has been given to the changing external environment and circumstances and the adaptive resilience that this demands of the organisation.

Based on our analysis it appears that none of the organisations has a management team which has the *ideal* range of talents and leadership qualities we consider necessary for an entrepreneurial organisation, irrespective whether the goal is economic or societal.

If institutions are nevertheless successful, this is because the missing diversity is supplied by members of the supervisory board. They do this on the basis of a strong sense of compassion and through close cooperation based on mutual understanding and respect. The same seems to apply in relation to knowledge and business management skills in areas such as marketing, financial management, legal affairs, and human resources, etc.

More fundamental, however, is the finding that management teams have too few people who can actively contribute to the *initiation* of new developments (stage 1 of the development curve). This could mean that *creating added value* in the present situation is at the expense of *radical innovation*, i.e. the creation of new products and services. A considerable number of the management teams do, however, have the necessary talents and leadership skills to make an effective contribution to the *implementation* of new ideas (stages 2 and 3 of the development curve). Apart from a few exceptions, the people in our random sample could be divided into two groups:

- A group of highly creative people who make a major contribution to the optimisation of the existing situation;
- A group of people who are inclined to direct their energy outward, and who are focused on building relationships which will benefit their institution.

The first group will make a major contribution to the management or creation of high quality content. This content remains extremely important to safeguarding the future of the organisation based on its artistic or cultural product. The second group will be extremely important for building relationships with non-traditional sources of funding. They are capable of presenting a persuasive case for the added value (relevance to society) created by their institution and in such a way that it will also appeal to a wider audience. This group is faced with the strategic challenge of focusing on different contacts while at the same time finding a suitable way of continuing the dialogue with the traditional sources of funding. It is interesting to note that a number of recent appointments in the sector have been more focused on this second group, rather than the first.

A more strategic and integrated approach to risk management and seizing opportunities at all layers of society is vital to the long term development of cultural institutions.



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The supervisory board

The members of a supervisory board are often very proud of the fact that they can play a role in a cultural organisation. They are very aware of the fact that they oversee the use of tax-payers' money and in that respect express a sense that it is a major responsibility. They struggle however with finding a suitable response to the changing political and public demands.

During the previous relatively stable period, non-executive directors could 'simply' apply a supervisory approach which is appropriate to mature organisations (from stage 4 of the development curve). The recent developments, however, have led to a considerable increase in the amount of time which the members of supervisory boards have to devote to an organisation. The management teams are faced with challenges which they have never faced before, in which gaps in skills, knowledge and coping strategies within the management team often have to be compensated for by the supervisory board. This has led to a considerable increase in the workload of the non-executive directors such that, alongside their formal duties, they increasingly find themselves involved in (or receiving questions from) the operational management. As a result, the lines between 'just supervision' and 'operational responsibility' are becoming blurred.

As with the management teams, it appears that none of the organisations has a supervisory board which has the *ideal*

range of talents and leadership qualities we consider necessary to oversee an entrepreneurial organisation, irrespective whether the goal is an economic or societal one. The diversity missing from the non-executive directors is supplemented by members of the management team. Here too, this appears to relate to knowledge and skills, but in the case of the non-executive directors, it is their knowledge of artistic content which is supplemented by the management team.

If we look at the supervisory boards individually, what we often see is a lack of a robust 'devil's advocate'. And by this we mean someone who has a strong sense of interpersonal dynamics but who, at the same time, can also ensure that real financial added value and relevance to society is created. We do not intend to suggest here that this does not already take place, but there are not many people with such a natural inclination. People who by nature are more focused on *operational efficiency* rather than *artistic quality* and who thus compensate for the natural tendencies of the management who are inclined to do the opposite.

As with the management teams, we observed that the supervisory boards also have too few people who can actively contribute to the *initiation* of new products and services. These are people who can challenge, motivate and support management team members in facilitating radical innovation, to attract new sources of funding from government, private parties, and charitable donations or based on the institution's own profitability.

One of the biggest challenges facing the supervisory boards is making sure that they are fully aware of the requirements imposed on the organisation as a result of the changed expectations of the outside world. For supervisory boards which do not have the right diversity in terms of time, skills, knowledge, talents and leadership qualities, it is almost impossible to gain an overview of the complexity (and interconnectedness between) artistic content, relevance to society and the highly intricate web of stakeholders.

Effective cooperation between executive and non-executive directors happens where there is a real understanding of each other's motivations and where it is recognized that creating value to society involves an entirely different dynamic than creating added value economically.

Executive and non-executive directors combined

The supervisory and management boards that took part in our study were often highly complementary in terms of talents and leadership qualities, as well as their knowledge and skills; a missing element in one team was made up for by the strengths of the other team. The degree to which this complementarity was effectively used, however, greatly depended on the level of understanding of each other's background and reasoning.

There is a significant contrast between the motivations of the non-executive and the executive directors. The management team is primarily interested in developing the institution from a professional viewpoint; they are motivated by *the professional judgement* of colleagues, specialists, artists and art critics. This takes place at the content level, which for non-executive directors is often difficult to comprehend. Non-executive directors, on the other hand, are mainly motivated by the *public regard* of their social network. They attach importance to the social and cultural relevance of the institution but do not consider the role to be an essential part of their own professional development. They are motivated by their own (in most cases, non-professional) passion for the creative product. Because any problems could have an adverse effect on their own professional careers, this can result in risk avoidance on the part of supervisory boards. This difference in motivation between executive and non-executive directors can lead to tensions about a particular approach, the willingness to accept (more) risk or a sense of urgency.

Another major disparity concerns differences in how the value creation process is approached. Many supervisory directors have a commercial background in which the value creation process is almost entirely concerned with money (expressed in terms such as profit, return on invested capital, return on assets, etc.). The process of value creation in the cultural sector is almost entirely aimed at creating social and cultural relevance in which money

is 'simply' a means of achieving that. These two totally different processes of value creation, in turn, lead to different ways of working, personal drivers and use of language. The fact that cultural institutions operate in the SME segment (often small, sometimes medium-sized) is another important differentiating factor. Cultural institutions work with a small and flexible management team which creates its own dynamic, which is not always understood by non-executive directors who are generally from larger organisations.

The management does not want its role to be usurped by the supervisory directors, but the strategic changes in the world in which these institutions now have to operate, and the often 'lean' management structure which has to keep these organisations running, means that the supervisory board is often seen as a logical and willing source of practical and other support. Non-executive directors therefore often contribute far more in terms of added value than the role formally demands of them.

It is vital, however, to realize that both teams can only utilize one another's complementary contributions if they have developed a good understanding of these essential – although not always immediately apparent – differences. It is also important to make clear agreements about where the boundary lies between formal supervision and practical support, either at the request of the management or because the circumstances require it. Where this boundary lies will also largely depend on the position of the institution in relation to its development curve (or how this is perceived).

But however well both teams make use of one another's complementary contributions, this will not remedy the noted shortage of both executive and non-executive directors who can make a significant contribution to the *initiation* of innovation (stage 1 of the development curve).

Cultural institutions are not commercial businesses. However, this does not rule out the need to pursue more socially and commercially-oriented activities.

Conclusions

We observe that, partly due to the need to reorganise and refocus, many supervisory boards and management teams have grown closer and gained a better understanding and appreciation for one another. We see a new generation of management team members who are in favour of more open and efficient interaction with the supervisory board. Executive directors who invest more time in the non-executive directors are also more satisfied with the added value brought by the supervisory board. Non-executive directors who are more involved and show a real passion for the mission of the institution appear to be more effective, particularly in relation to the deeply-rooted intrinsic motivation of the people who work in the cultural sector.

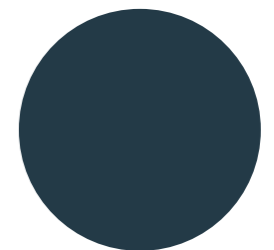
Effective cooperation between management teams and supervisory boards happens where there is a real understanding for each other's motivations and where it is recognized that creating value and relevance to society has an entirely different dynamic than the creation of economic value. For cultural institutions it is strategically important to create real value and relevance to society together with a more business-like approach towards maintaining existing sources of funding *and* attracting new financial investors.

For institutions which want to create new added value (and relevance to society) the challenge will be to attract and retain a number of 'natural' innovators on both the management and supervisory boards. People, therefore, who can make a significant contribution to the *initiation* of new and socially-relevant propositions that also acknowledge and affirm the values of the institution.

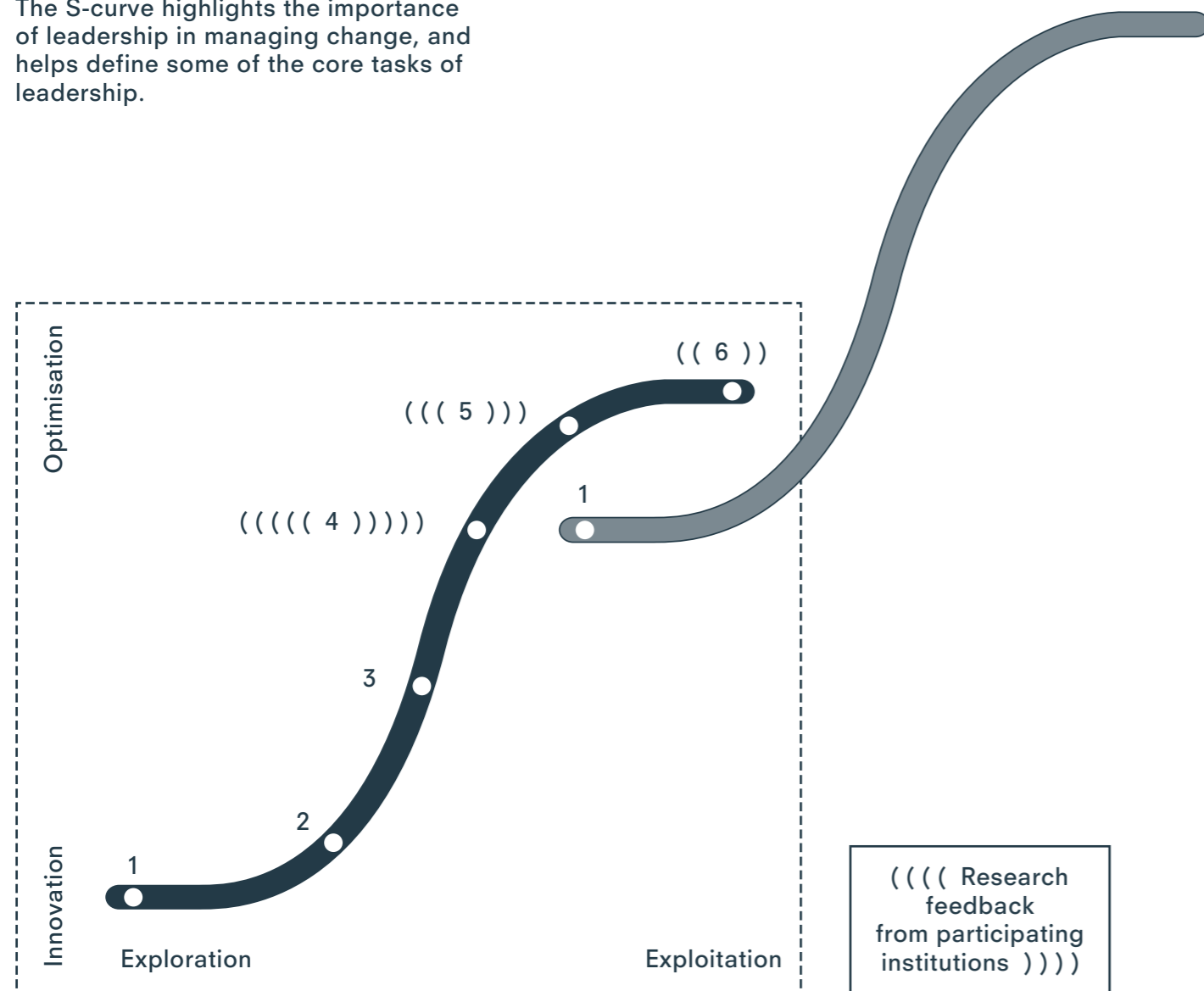
Such radical innovation could result in a direct benefit in the form of a source of funding, or an indirect benefit through the creation of new social relevance or

cultural value. This will also help to attract new sources of government funding, private sponsorship or charitable giving. It is important to recognize here, however, that new sponsors and investors may have completely different economic and accountability concerns and objectives than the more traditional financiers of art and culture.

The non-executive directors would do well to hone their critical faculties, i.e. playing 'devil's advocate'. New initiatives should be supported but over-optimistic ideas need to be curbed. Supervisory boards appear to be inclined to recognize – sooner than the management – that these developments need to take place as part of an overall long-term approach to identifying and monitoring the risks and opportunities which could affect the organisation, arising from both the internal and external environments.



The S-curve highlights the importance of leadership in managing change, and helps define some of the core tasks of leadership.



Phase 1	Imagineering: Ideation Design the future
Phase 2	Imagineering: Incubation Obtain funding and resources
Phase 3	Deployment: Effectuation Position and plan – get traction
Phase 4	Deployment: Constitution Coordinate and Operate – squeeze out efficiencies
Phase 5	Exploitation: Expansion Enhance and Augment
Phase 6	Exploitation: Extension Stretch and Reflect

The phases of an S-curve

The development curve

A fundamental principle of the business ecology model is that organisations behave like living organisms. Anything which is intended to grow, will never remain the same. The development curve which applies to universal processes, provides a benchmark to describe the future process of change:

Creation → Development → Growth → Maturity / 'Harvest' → Decay

This process takes place in everything which is created or comes to life. 'Everything' really does mean 'everything': from your own life to the 'life' of a product, exhibition or concert series; from the rise and fall of an ant colony to that of an entire empire. It illustrates the growth and decay of organisations or an economy, a market, a career, political power, an ecosystem, planet Earth or, indeed, a relationship.

The development curve emphasizes the importance of leadership in managing change, and helps to define some of the key elements of leadership. Sustainable organisations are able to detect accurately when their environment is changing. And if this is the case, they will start to investigate how they can utilize their existing competences in the best way possible. In this way they create added value which can be invested in a new development (the next development curve). Because of the very different decision-making and control mechanisms, maintaining these two development curves in parallel to one another (stages 5 and 6 of the old development curve alongside stages 1 and 2 of the new development curve) creates huge challenges for both the supervisory board and the management. To safeguard the effectiveness of a team or organisation it is therefore important to have a clear understanding of which stage in the development curve they are at. Because this will determine the strategic context and thus the type of leadership and the mix of leadership contributions required.

Range of talents and leadership qualities

Based on the business ecology model, we analysed leaders in terms of their varying abilities to adapt (and thus contribute) to the changing demands of the business cycle. This analysis was conducted at three levels: the instinctual drive to develop an attachment to either 'people' or 'content', the urge to explore and the approach to complex problems. The individual preferences for each of these levels the was recorded using a system of points. These preferences are the result of an individual's own development and directly related to their attitude towards change. They therefore also have a direct influence on behaviour, how we respond to change, and where we have the greatest opportunity to make our best contribution.

For this analysis we used the AEM cube® of Human Insight Ltd. This method can be applied to teams and organisations, to:

- Predict where they are likely to be most productive in the growth cycle of a business;
- Discover where hidden or unknown risks may lie, or where performance falls below standard;
- Integrate individual growth with team development, further to the performance requirements of an organisation in pursuing its strategy.



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About Camunico

With a passion for culture and the arts, Camunico was founded on the conviction that appreciating human potential is the key to success. We believe that values-driven cultures create greater potential, generate more social value and have more impact. Camunico supports high performing and high potential organisations to become agents of change and create innovative value patterns which ensure sustainability.

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