



GOVERNANCE CODE FOR THE CULTURAL SECTOR

Effective management and supervision

The cultural sector is notable for its diversity but all organisations must now devote greater attention to risk management, effective supervision, accountability and the challenges of working with mixed funding flows. This Governance Code will help them to ensure that all management and supervision arrangements are in order. It sets out nine principles together with recommendations for their practical implementation. The Code is not binding. Nevertheless, organisations should observe the general principle of 'comply or explain.'



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1. PREAMBLE

A code for good governance, management and supervision

Cultural organisations work to achieve certain cultural, economic and social values. Their use of public resources brings a moral responsibility. This Code offers recommendations for standards and procedures which will prove useful to both the organisations themselves and the public to whom they are accountable.

Transparency and accountability

The Code enables organisations to offer transparency and accountability. This is relevant given the changing role of government and the market, and the desire to encourage enterprise and competition based on market forces. Funding agencies, the general public, sponsors, supporters and other stakeholders should be able to ascertain whether an organisation is efficient and effective. The necessary information can be presented in the annual report and on the website, while it is also increasingly common for organisations to enter into a dialogue with their stakeholders via social media. Transparency creates trust and confidence, helping to maintain public support for the cultural sector as a whole.

The cultural sector

The cultural sector is notable for its diversity. Organisations vary significantly in size, budget, structure, discipline and purpose. Most are relatively small, whereupon the mass of the sector itself is based on the sheer number of individual organisations. The term ‘hybrid organisations’ is sometimes used to refer to a reliance on a combination of public funding and market revenue. The sector now faces stricter requirements in terms of risk management, supervision and accountability. This Governance Code for the Cultural Sector offers a useful basis.

“Comply or explain”

The Code is an instrument which supports good management and supervision. It deals with all aspects: policy and strategy, implementation, supervision and accountability. It helps board members and supervisory directors to assess their own performance: ‘what are we doing, and why do we do it this way?’ It is not a question of ticking a box to indicate that a particular rule has been observed, but of ensuring that all decisions and actions are deliberate, well grounded, and in keeping with the organisational objectives and stakeholder expectations. The Code presents nine principles which are framed in general terms but imply certain obligations. They are not cast in stone: anyone who wishes to deviate from the letter of the Code is free to do so. However, in the interests of transparency and accountability, they must be able to give reasons. If it is not possible to offer a sound reason, it is preferable to follow the letter of the Code. The overriding principle is therefore ‘Comply or explain.’ Failure to do so is likely to court suspicion. The organisation may lose the trust of funding agencies, the public and other stakeholders.

Good governance

Good governance, by which we refer to all management and supervisory activities, is marked by:

- Clarity with regard to the management model, structure and responsibilities

- Transparent and unimpeachable decisions and actions, which take the interests of all stakeholders into account
- Expertise in management
- Effectiveness of management, for which accountability is provided
- Effectiveness in achieving the organisation's mission and objectives
- Efficient and responsible use of (public) resources.

Aims and principles

This Code seeks to establish:

- awareness of the Code and its intentions.
- an appropriate choice of governance model.
- a clear division of tasks and responsibilities between the executive and supervisory levels.
- independence of supervision and the avoidance of any conflicts of interests.
- appropriate expertise and diversity within the supervisory board
- effective and independent financial control
- public accountability.

All aims are addressed by one or more explicit principles, the exception being public accountability which is an intrinsic aim of all principles and the recommendations for implementation. It is important for the organisation to be accountable to the outside world but this requires its appointed officers to address their own responsibilities.



2. MANAGEMENT AND SUPERVISION

Management and supervision

The Code recognises two governance models: the single-tier model in which there is a central 'board', and the two-tier system in which there is also a supervisory board. Where recommendations differ according to the model in use, this is clearly stated in the text. In all other cases, the principles and recommendations apply to both models and to both governance bodies.

Single-tier governance

In the single-tier governance model, decision-making falls to a 'board' (which may be designated the 'Board of Trustees', 'Board of Governors' or any of a number of titles). This Board, whose members are generally unsalaried, can implement its decisions itself or may delegate executive responsibility to one or more (professional) managers. In either case, the board retains overall responsibility for policy and strategy, whereby it also fulfils the supervisory function. In practice, supervision entails mutual agreement between the board members, and their joint observance of the principles of this Code.

Organisations with this governance model are likely to be relatively small, whereupon the Board also fills the executive management role. There are few formal procedures or written instructions. Even some larger, more professional organisations have adopted the single-tier model; the board makes decisions and delegates their implementation to one or more professional managers. These organisations are more likely to have written procedures.

The two-tier model

In the two-tier model, the 'board' is responsible for the governance process with the exception of the supervisory component. The board is professional (salaried) and consists of one or more 'statutory directors'. The supervisory function falls to a separate body, the supervisory board. Supervision is exercised at two key moments: 'before', whereby the mission statement, policy, strategy plans and budgets are presented for the approval of the supervisory board prior to their implementation, and 'after', when the supervisory board assesses performance and approves the annual report and accompanying financial statements. The supervisory board also provides support and advice. It is responsible for appointing the members of the (executive) board and the external accountant.

Organisations with this governance model are generally large, with their own professional management, support staff and an internal hierarchy.

The website www.governancecodecultuur.nl provides various resources to support good governance. It includes a 'toolkit' to help organisations structure their governance arrangements in accordance with the Code. The toolkit includes checklists and sample documents. In this booklet, symbols in the margin alongside the recommendations refer to activities which are described in greater detail on the website. Six extracts from the toolkit are included below by way of illustration.

I What should we publish on the website?

The website is an important channel through which to provide up-to-date information about the organisation.

II How should we select our governance model?

No two organisations are alike. The choice of governance model must be based on individual circumstances.

III What should we establish in writing?

There are certain agreements which must be recorded as procedural documents.

IV What should be on the annual agenda?

The recurring activities of the board and supervisory board should be planned in advance.

V What must we include in the Annual Report?

The Annual Report will cover various topics but must always contain the financial statements.

VI How do the board and supervisory board assess their own role and performance?

The agenda of the evaluation meeting includes topics which would not usually be discussed at a regular meeting.



3. THE NINE PRINCIPLES

Principle 1

The board is responsible for ensuring compliance with the Governance Code.

Principle 2

The board will carefully select the governance model to be applied.

Principle 3

The board is responsible for the organisation as a whole. It provides accountability for tasks, rights, responsibilities and procedures to all stakeholders, both internal and external.

Principle 4

The supervisory board determines the legal status and remuneration of the board, providing the greatest possible degree of transparency.

Principle 5

The supervisory board produces Standing Orders setting out its own tasks, responsibilities and procedures, and acts accordingly.

Principle 6

The supervisory board is responsible for its own composition, whereby it will devote due attention to expertise, diversity and independence.

Principle 7

The supervisory board determines the commitment required of its members and the amount of any compensation to be paid.

Principle 8

The members of the board and supervisory board must avoid any conflict of interests, actual or apparent. The supervisory board ensures that this principle is observed.

Principle 9

The board is responsible for financial policy and risk management, to be achieved through effective internal procedures and external audit.

What should we publish on our website?

To demonstrate that the organisation endorses the Governance Code, it could include the following information on its website:

- The statement 'We endorse the Governance Code for the Cultural Sector'
- The governance model of the organisation
- A description of the roles of the board and supervisory board
- Names and brief biographies of the members of the board and supervisory board
- Vacancies on either board

- The roster of the boards (showing when members are required to step down having completed the maximum term in office).

COMPLIANCE AND THE GOVERNANCE MODEL

Preliminary remarks

The nine principles of the Code can be translated into practical recommendations. Here, the word 'recommendation' can be interpreted in various ways: 'this is how it should be done', 'this is what well-run organisations do', or 'this is an example of good practice'. The reader must decide. The Code is not a set of legal requirements; it merely describes what is usual and desirable. An organisation may opt to take a different approach, but the principle must be 'comply or explain'.

How should we apply the code?

Principle 1

The board is responsible for ensuring compliance with the Governance Code.

Principle 1 in practice

1. The organisation is aware of the contents of the Governance Code for the Cultural Sector and acts accordingly.
2. The manner in which the Code is applied is in keeping with the nature, size and objectives of the organisation.
3. The organisation may opt to deviate from a principle or recommendation, based on considerations such as its size or nature, or the available expertise and experience.
4. The Annual Report should include a compliance statement, noting any deviations from the Code in terms of governance model or practice.
5. The organisation's website should include information about the way in which the Code is applied.

Do we have an appropriate governance model?

Principle 2

The board will carefully select the governance model to be applied.

Principle 2 in practice

1. The organisation will choose either the single-tier or two-tier governance model.
2. The choice of governance model is to be reviewed at least once every four years. There will be an analysis examining whether the model continues to function effectively. Which components or aspects are satisfactory and should be retained? What can be improved? What must be improved? Is a different model now more appropriate?
3. If there is good cause to change the governance model, the board must consult the relevant stakeholders. If necessary, the board will produce an implementation plan.

4. The organisation should ensure that its statutes and internal procedures are in keeping with the Code. The requirements of the Code are to be taken into consideration when making any amendments to the statutes or internal procedures.
5. The board is responsible not only for the choice of governance model but also for its implementation.
6. The organisation will clearly communicate its choice of governance model to all stakeholders, referring to the relevant job titles and responsibilities.

Notes

Legal structure

The most common legal structure for organisations in the cultural sector is the 'Foundation'. There are other possibilities: an organisation can choose to register as a (cooperative) association, a private limited company or a public limited company, for example. The Code is applicable to all.

Job titles and other nomenclature

In the two-tier governance model, the members of the board are sometimes referred to as 'directors'. Remember that this offers little or no information about their rights and responsibilities.

How should we select the governance model?

No two organisations are alike. The board must make its choice of governance model based on the specific circumstances. The main considerations will be:

- **Size and budget**
- **Whether the board is unsalaried or salaried (professional)**
- **The complexity of the organisation and the need for (written) procedures**

THE BOARD

Preliminary remarks

Overall responsibility for an organisation rests with its governing board. In both the single-tier and two-tier governance models, this board exercises all rights vested in the organisation by law or by its own statutes. In the two-tier model, the board generally comprises salaried professionals. In the single-tier model, it may be a board of unpaid trustees or governors which is able to delegate tasks to one or more managers but which nevertheless retains overall responsibility.

See also section IV (Executive Board and Supervisory Board) and the Appendix (Terminology).

What agreements should be made with regard to the tasks and procedures of the board?

Principle 3

The board is responsible for the organisation as a whole. It provides accountability for tasks, rights, responsibilities and procedures to all stakeholders, both internal and external.

Principle 3 in practice

The following recommendations apply to both the single-tier and two-tier governance models.

1. The board acts according to the organisation's mission and must consider the interests of all stakeholders.
2. The board is responsible for ensuring that the organisation complies with all relevant legislation.
3. The organisation has an appropriate system for risk management and (financial) control. The Annual Report provides information about how this system is applied.
4. The board is responsible for identifying and managing risks.
5. The board will produce Standing Orders setting out the division of tasks, rights and responsibilities between its members, and how those members work collectively as a board.
6. All decisions of importance to the organisation are to be made by the board, which must also approve strategic documents.
7. No member of the board may accept an external appointment which is likely to interfere with the performance of his or her responsibilities on behalf of the organisation (see also Principle 8).
8. The board is responsible for maintaining good relations with all stakeholders, including staff representation bodies.
9. The organisation must ensure that staff are able to report any (suspected) irregularities without fear of reprisals or recrimination. They should be able to contact the board, or an officer appointed by the board, directly.

The following recommendations apply only to the two-tier governance system:

10. Staff wishing to report an irregularity involving a member of the board must be able to contact the chairman of the supervisory board.
11. The board will make agreements with regard to the frequency and content of its meetings with the supervisory board.
12. The board will produce its own Standing Orders which are to be presented to the supervisory board for approval.
13. The board will provide the supervisory board with all information necessary to ensure effective performance. It must do so promptly, on request or when deemed necessary. ('No surprises' is an important principle underpinning the relationship between the two boards).
14. The board will present important decisions and strategic documents for the approval of the supervisory board.

The following recommendations apply only to the single-tier governance system.

15. A staff member wishing to report irregularities involving one or more board members must be able to contact the Chairman of the Board.
16. The board may delegate tasks to one or more managers.¹ Responsibility remains with the board at all times.

¹ The terms 'manager' and 'management' have no formal status or legal definition, and

What agreements should we made with regard to remuneration?

Principle 4

The supervisory board determines the legal status and remuneration of the board, providing the greatest possible degree of transparency.

Principle 4 in practice

The following recommendations also apply to the single-tier governance model.

1. Remuneration policy should be in keeping with the character of the organisation, and in line with legislative requirements or subsidy conditions.
 2. Within the framework of the remuneration policy, the supervisory board will determine the remuneration payable to each member of the board.
 3. The board will publish information about the organisation's remuneration policy in the Annual Report, to include actual amounts paid and the duration of the contracts held by the relevant officers.
- 6 More detailed information about remuneration policy and legislative requirements can be found at www.governancecodecultuur.nl. Organisations in the public and semi-public sectors are subject to the provisions of the Standards for Remuneration Act (*Wet normering bezoldiging topfunctionarissen publieke en semipublieke sector*; WNT).

What should we establish in writing?

Certain procedures and agreements should be recorded in writing. The following list is not exhaustive.

Governance structure:

- statutes
- standing orders for the board
- standing orders for the supervisory board

Policy and accountability:

- important decisions
- policy plan
- protocol for information to be provided to the supervisory board
- internal procedures and regulations
- remuneration policy
- terms of office for members of both boards, including roster
- remuneration of supervisory board members
- annual Report

THE SUPERVISORY BOARD

Preliminary remarks

Supervision is the primary role of the supervisory board. Supervision is desirable, particularly where the day-to-day running of the organisation falls to a professional (executive) board. It can help avoid the risk of 'tunnel vision' or any inappropriate departures from the mission and objectives of the organisation. The following remarks therefore apply primarily to the supervisory board within the two-tier governance model but are also relevant to the single-tier model.

Have the roles, tasks and procedures been clearly established?

Principle 5

The supervisory board produces Standing Orders setting out its own tasks, responsibilities and procedures, and acts accordingly.

Principle 5 in practice

The following recommendations also apply to the board in the single-tier governance model.

1. The supervisory board will allow its activities to be guided by the cultural, economic and societal interests of the organisation.
2. The supervisory board will strive to uphold the interests of the organisation itself, taking those of its stakeholders into consideration.
3. The supervisory board will produce Standing Orders which set out the division of tasks and responsibilities between its members, working procedures and arrangements for contact with other governance bodies.
4. The organisation's Annual Report is to include an account of the supervisory board's activities during the year in question, written by or under the authority of the chair of the supervisory board.
5. The supervisory board will convene at predetermined intervals at least twice a year. One meeting is for the purpose of approving the annual plan and budget for the coming period, while the other is to finalise the Annual Report and financial statements.
6. The supervisory board is responsible and accountable for its own performance. The supervisory board will discuss its performance at least once a year at a closed meeting (not attended by any representative of another governance body).
7. The supervisory board will also discuss the performance of the board at least once a year at a closed meeting (not attended by any representative of the board).
8. The supervisory board will exercise its supervision in a critical manner but providing due encouragement.
9. The supervisory board is responsible for appointing the external accountant (auditor), having taken advice from the board (see also Principle 9).
10. The supervisory board proactively advises the board, both anticipating and reflecting on decisions made by the board.
11. There are a number of fixed topics to be included in all deliberations of the supervisory board. They include: attainment of the organisational objectives, strategy, risk management and financial policy.
12. The supervisory board makes all decisions relating to the appointment, remuneration, assessment, suspension or dismissal of members of the board. When making an appointment to an (artistic) management position, the supervisory board will seek external advice.

How should we assemble an effective supervisory board?

Principle 6

The supervisory board is responsible for its own composition, whereby it will devote due attention to expertise, diversity and independence.

Principle 6 in practice

The following recommendations can also be applied by the board in a single-tier governance model.

1. The supervisory board should comprise at least three members.
2. The composition of the supervisory board should be such as to allow it to perform its function effectively.
3. Each member of the supervisory board must be able to evaluate the organisation's overall policy (in outline if not in detail).
4. Each member should contribute some specific knowledge and expertise in accordance with the profile of the supervisory board as a whole.
5. The composition of the supervisory board should reflect appropriate diversity, with particular attention devoted to age, ethnicity and gender.
6. Reappointments are to be made after due deliberations which take current circumstances and the profile of the supervisory board into account.
7. Vacancies on the supervisory board are to be made public.
8. All new appointees to the supervisory board are to be given an introduction to the organisation which covers the various aspects of relevance to their work. As part of the annual assessment process, the supervisory board will identify any areas in which its members are to acquire further knowledge or expertise.
9. The statutes of the organisation must stipulate the maximum term of office to be served by each member of the supervisory board. Standard practice is an initial term of four years with one extension of a further four years, or an initial term of three years with two possible extensions, each of three years.
10. A roster is compiled showing when each member is required to step down. The terms of office are staggered to ensure continuity. The roster is to be made public.

A labour of love?

Principle 7

The supervisory board determines the commitment required of its members and the amount of any compensation to be paid.

Principle 7 in practice

The following recommendations also apply to the board in the single-tier model

1. Each member of the supervisory board is expected to be able to devote sufficient time and attention to the performance of the relevant tasks and responsibilities. The voluntary nature of the work, whereby little or no payment is offered, does not absolve members from performing their duties to the best of their ability.

2. If any remuneration is to be offered, the supervisory board is to determine the amount in keeping with the character of the organisation, legislative requirements and subsidy conditions.
3. Any remuneration paid to members of the supervisory board should be shown in the annual financial statements.
4. Remuneration paid to members of the supervisory board must not be linked to the results of the organisation.
5. The chairman of the supervisory board prepares the agenda of its meetings, leads those meetings, ensures that all required information is made available, oversees conscientious decision-making and ensures the proper performance of the supervisory board's duties.
6. The chairman of the supervisory board is that body's primary point of contact for the board and other executive officers; he or she initiates the performance assessment of the supervisory board itself and all other governance bodies; he or she ensures good communication between the various governance bodies; in the event of a (serious) incident, he or she plays an active role in communication with stakeholders.
7. The organisation must ensure that the chairman of the supervisory board receives all necessary support.
8. The chairman of the supervisory board must not be a board member or former board member (trustee or director) of the organisation.
9. The supervisory board may designate a 'delegated member' on a temporary basis. This situation will arise when a task requires more intensive supervision, advice and/or consultation with the Trustees than would normally be possible. The delegated responsibilities can not extend beyond those of the supervisory board itself whereby the delegated member does not play any part in the day-to-day management or administration of the organisation. The supervisory board may award separate remuneration in respect of the additional commitment.
10. The delegation of tasks to a single member does not affect the collective responsibility or authority of the supervisory board. The delegated member remains a member of the supervisory board.
11. If a member of the supervisory board is required to perform executive, managerial or administrative duties on a temporary basis, he or she must step down from the supervisory board for the period concerned.

What should be on the agenda?

The annual planner of the supervisory board might include the following:

First quarter

- produce multi-year policy plan/financial policy**
- risk analysis and evaluation of audit/control arrangements**
- compile Annual Report for preceding year**

Second quarter

- discuss staff/stakeholder codetermination arrangements**
- finalise remuneration policy**
- consultation with external accountant (auditor)**

Third quarter

evaluation of external accountant (auditor)
evaluation of Trustees/Directors
verify roster
finalise multi-year policy plan and budget

Fourth quarter

evaluation of Trustees/Directors/Management
finalise policy plan and budget for coming year
evaluation of governance arrangements

INDEPENDENCE

How do we ensure independence and impartiality?

Principle 8

The members of the board and supervisory board must avoid any conflict of interests, actual or apparent. The supervisory board ensures that this principle is observed.

Principle 8 in practice

The following recommendations also apply to the board in the single-tier governance model.

1. Each member of the supervisory board must be able to make a critical and independent contribution to the decision-making process. The supervisory board will ascertain that all members act impartially. The supervisory board determines how the organisation is to respond to any (apparent) conflict of interests.
2. Decisions relating to transactions or contractual relationships which present an (apparent) conflict of interest must be approved by the supervisory board in advance.
3. A member of the board or supervisory board wishing to take up an external appointment which may affect his or her ability to perform effectively on behalf of the organisation must obtain the prior express permission of the supervisory board.
4. Members of the board or supervisory board must not undertake any activity which can be deemed to compete with the interests of the organisation; they may not accept any gifts nor may they do so on behalf of relatives, and may not acquire or attempt to acquire any unfair personal advantage which can harm or impinge upon the interests of the organisation. Members may not divert commercial opportunities offered to the organisation for their own gain or that of relatives.
5. The Standing Orders of the supervisory board should include rules with regard to the avoidance and/or disclosure of conflicting interests involving members of the supervisory board, the board and the external accountant (auditor).
6. Any (potential) conflict of interest must be reported immediately to the chairman of the supervisory board, who is to be given all relevant information. The supervisory board will discuss the matter at a meeting which is not attended by the person concerned.
7. A member of the supervisory board must not take any part in discussions or decision-making relating to matters in which he or she has any interest that may conflict with the interests of the organisation.
8. Decisions which may be deemed to represent some conflict of interests must be explained in the Annual Report.

9. The organisation must not extend any loan or loan guarantee to a member of the board of supervisory board.

10. The Annual Report is to include a full disclosure of all external appointments held by members of the board and supervisory board.

[Orphan notes]

Between the organisation and any member of one of its governance bodies.

The term 'relatives' is defined on the website. The toolkit lists criteria against which the independence of (prospective) members of the supervisory board can be assessed.

A member of the board must inform the chair of the supervisory board and all fellow members of the board. A member of the supervisory board must inform the chairman.

Where the chairman himself or herself is involved, he or she should inform the deputy (vice) chairman. The same procedure applies in the single-tier governance model.

What should be included in the Annual Report?

The Annual Report must offer an accurate account of:

- 1. the (financial) status of the organisation at the balance sheet date**
- 2. developments during the report year**
- 3. the organisation's performance and financial results**

Other topics to be included are:

- compliance statement: application of the governance code and any exceptions**
- the choice of governance model**
- risks and uncertainties, and the organisation's response**
- the board's financial report**
- results achieved**
- the report of the supervisory board**
- remuneration of directors**

Financial supervision and risk management

Preliminary remarks

Principle 9 is concerned with financial reporting and control (audit procedures). Full compliance with procedures and agreements is essential. The first step is therefore to establish those procedures and agreements with all due diligence. The number and nature of the procedures and agreements will vary from one organisation to another. This is another area in which an individual approach is required, based on the size, revenue and governance model of the organisation concerned.

Principle 9

The board is responsible for financial policy and risk management, to be achieved through effective internal procedures and external audit.

Principle 9 in practice

1. The financial statements are prepared by or under the responsibility of the board. In the two-tier government model, the supervisory board ensures that this process is conducted in accordance with the agreed standards.

2. Based on the advice of the Executive Board, the supervisory board appoints the external accountant and determines the amount to be paid for his or her services. In the single-tier governance model, the board makes these decisions, perhaps on the advice of the management team.
3. The external accountant may be retained for a maximum period of four years, with the possibility of one extension of a further four years. Accordingly, there must be a complete and thorough evaluation of the organisation's relationship with the accountant should be made by the supervisory board at least once every four years. The main findings of this evaluation should be published in the Annual Report.
4. The production of the Annual Report, financial statements and other relevant financial documents demands thorough internal procedures. The board will establish and ensure compliance with the relevant regulations. In the two-tier governance model, the supervisory board will oversee compliance.
5. The supervisory board will determine whether the external accountant is to be involved in financial reporting above and beyond the production of the annual statements, and if so, the form that involvement is to take. In the single-tier governance model, this decision falls to the board.
6. The external accountant will report his findings directly to the supervisory board at least once a year. The supervisory board can request the accountant's opinions regarding the accuracy and completeness of the financial statements.
7. At least once a year, the board will report on the relationship with the external accountant to the supervisory board, noting any changes or developments. Based in part on this information, the supervisory board will determine whether the relationship is to be continued. In the single-tier government model, this decision falls to the board, with advice from management as required.
8. The external accountant must not receive any instruction or request from the organisation that is likely to affect his ability to exercise independent and impartial judgement. If the accountant is requested to conduct any activity above and beyond the standard audit procedures, he or she is to inform the board or supervisory board.

How should the governance bodies assess their own role and performance?

A meeting held to evaluate personal performance is likely to include topics which do not appear on the agenda of the regular meetings. Respectful interaction, mutual confidence and a constructive attitude on the part of all concerned will form a good starting point.

The evaluation of the governance bodies should consider the following five aspects:

- **interaction between the supervisory and executive levels**
- **effectiveness of each board as a team**
- **the performance and input of each board member**
- **the performance of the chair**
- **the process (to include the effectiveness of meetings).**

APPENDICES

Terminology

The terms 'trustees', 'directors' and 'executive board' are virtually interchangeable in the two-tier governance model. They refer to any governance body other than the supervisory board (the latter having a non-executive function). There may also be a level of executive management beneath the board itself, which can be termed the 'management' or 'management team'.

In practice, it is desirable to offer transparency regarding governance arrangements which entails clearly defining the roles and responsibilities of the bodies, their members and other staff or officers of the organisation.

Principle 3 of the Code refers specifically to the 'board', whereby this body is responsible for directing the activities of the professional management team.

Principle

If the organisation has a (professional) management team, the board is responsible for its performance.

In practice

1. The board should clearly define the tasks to be delegated to the management team.
2. Management is responsible and accountable for the performance of the delegated tasks and will provide the board with all necessary information in this regard.
3. Management will respect all rights and responsibilities of the board.
4. The board should produce Standing Orders defining the tasks, rights and responsibilities of the management team.
5. If there is more than one member of the management team, the Standing Orders should describe the division of rights and responsibilities between them. The Standing Orders should also set out how the management team works as a whole.
6. Management will ensure that all important decisions and strategic documents are approved by the board.
7. No member of the management team may accept an external appointment (see Principle 8) without the express prior permission of the board.
8. Management will provide all information required for the effective performance of the board, doing so promptly on request or as necessary.
9. The board will produce written instructions with regard to the frequency and content of information provision by the management team.
10. Management will ensure that any member of staff can report irregularities without fear of reprisals or recrimination. They must be able to contact the board, or an officer appointed by the board, directly.
11. Principle 8 also applies to the management team.

Notes on other terminology

Policy

The term 'policy' can refer to:

- the organisation's (artistic) programming
- formulation of objectives and action in pursuit of those objectives
- the organisation's operational activities
- outreach (addressing specific target groups)
- the generation of income
- contracting (including contracts of employment).

Statutory director

A person responsible for the statutory leadership of the organisation.

Certain responsibilities are established by law, whereupon directors are jointly and severally accountable for performance and compliance.

Operational management

The process of controlling the activities, status and progress of the organisation, to include the acquisition, management and disbursement of financial resources.

Governance model

The governance model determines the structure and procedures of organisational control.

Cultural sector

For the purposes of this Code, the cultural sector is defined as including all activity, commercial or otherwise, relating to arts and culture, whether undertaken by public, semi-public or private parties and relying on public funding, market revenue or any combination thereof. The various components of the cultural sector include but are not restricted to amateur art, cultural heritage organisation, archives, architecture and urban planning, the visual arts, design, music, musical theatre, drama, dance, cinema, photography, landscape architecture, literature, libraries, media art, museums and cultural heritage in the broadest sense of the term.

Governance

The overall process of effective control, management, supervision and accountability for the organisation and its performance.

Risk management

The process of responding responsibly to risks and uncertainties such as those affecting or intrinsic to strategy, finances, real estate and projects. The identification and analysis of risks allows effective measures to be implemented whereby the potential adverse effects can be avoided, mitigated or compensated.

Transparency

For the purposes of this Code, 'transparency' is defined as the degree to which the organisation communicates with stakeholders about its structure, objectives, use of resources (including remuneration policy), the names of board members and other key personnel, and all matters which may be deemed to be of public interest.