What do boards do when things go wrong?

Conference or Workshop Item

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(A presented to the 32nd Annual ARNOVA Conference, November, 2003, Denver)

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Keywords: governance, boards, crises, organizational turnaround

Introduction

Over the last decade there has been a growing concern across all sectors to improve the quality of governance of organisations. In the private sector, in the wake of a series of major corporate scandals of which the likes of Enron and Worldcom are only two of the latest, there has been a variety of initiatives to make board stewardship of public companies more effective. For example, in the UK there have been a string of major reports and reforms aimed at improving the self-regulation of companies by their boards (Cadbury, 1992; Greenbury, 1995; Hampel, 1998), which led to a combined code of good practice. The most recent report (Higgs, 2002) proposes a number of changes to strengthen the role of non-executive directors in the interests of increased effectiveness and accountability.

Similar concerns exist about the effectiveness of public and nonprofit boards. Successive British governments, in their attempts to modernize and improve the provision of services have put public and non-profit organizations under pressure to improve their effectiveness through the imposition of performance measures, quality checks and audits, and through reforms to governance structures. It has become the practice of the government to compose 'league tables' of performance and to publicize the performance of all. This has created new kinds of pressures for organizations and their governing bodies – being 'named and shamed'. Schools for example if deemed to be failing will be put into what is known as 'special measures' where the threat of having a 'superhead' brought in to sort it out will hang over the governing body for up to two years. Similar procedures have now been introduced for 'failing hospitals'. At the same time government has increasingly drawn the voluntary sector into the role of providing public services and there are moves towards greater quality checks and performance measurement for their work too. The Government's Strategy Unit report (2002) *Private Action, Public Benefit* for example proposes more stringent requirements on larger charities (income over £1m) to complete a standard information return that will focus attention on the measurement of impact, achievement, stakeholder involvement, governance and trustee selection and abilities.

A variety of reforms have been made with the intention of strengthening the governance of many public organizations, such as schools, colleges and hospital (Skelcher, 1998; Greer et al, 2003). For example in the health sector, health trusts have adopted a model of governance based on private sector boards, with the division between executive and non-executive directors (Ashburner, 2003). In the voluntary sector the Charity Commission, which regulates charitable activity in England and Wales, has tightened up the regulatory regime for charities and developed a new monitoring programme (Charity Commission, 2000). Investigations of charities by the Commission have increased and the results of these investigations are now publicized on its web site. It has also introduced an 'Enhancing Charity' programme which includes a review with up to 600 charities in the £0.25M and £10.0M income range annually. The stated aim is the prevent problems arising. More recently the Home Office has funded a study to develop a strategy to improve governance across the voluntary sector, and a number of other related initiatives.

As a result, the pressures on the boards of non-profit organizations to ensure that their organizations are well run and effective have never been greater. In this environment how boards try to prevent crises arising or deal effectively with them if they do is an important issue. Harker and Sharma (2001) in a study of company turnarounds suggest that how boards respond when things go seriously wrong can be a critical factors as to whether the organization survives or not. Lorsch and MacIver (1989) in their study of corporate boards also suggest boards play an important role in dealing with crises and conclude that it is mainly during crises that boards are 'forced' to come to the fore and exercise real power. Wood (1992) also suggests that crises are a key factor in non-profit boards to become more active and indeed triggering a new stage in their life-cycle. Yet, given the likely significance of the board's role when things go wrong, this phenomenon has been little studied, particularly in non-profit organizations.

At last years ARNOVA conference we presented a paper that began to set out a conceptual framework to help understand how boards deal with crises and proposed a set of questions to guide empirical research (Mordaunt and Cornforth, 2002). Since then we have refined the framework further, developed our methodology for studying board crises and undertaken the first phase of empirical research. The aim of this paper is to briefly present the revised framework, then discuss some of the methodological problems in studying board crises and finally, present some preliminary findings from the empirical work.

Conceptual framework

The research draws upon theorizing about private sector boards and extends it to the non-profit sector. It will seek to explain how boards react to crises in terms of a four part conceptual framework: the *context* in which boards operate; the *types of crises* they face; the board's and senior management's *capacity* to deal with the problems they face and the different *phases* they and the organization passes through in addressing the crisis. However, before looking at these in more detail, it is important to say a few words about our broad theoretical orientation and how we conceive of organizational crises.

An assumption that permeates much of the literature on boards and crises is that crises can be treated as if they were objective events. But it is not that simple. Making a judgment that an organization is not performing well is not at all straightforward, and there is often disagreement and different interpretations of events. 'Crises' are not objective facts, but are socially constructed. This is not to suggest that there may be events underlying the crises, which are commonly agreed, such as the withdrawal of funding, or conflict between the board and management, but that these events are often seen and interpreted in different ways. Acknowledging this focuses greater attention on the processes by which a shared understanding (or recognition) of crises develops. It draws attention to the fact that there may be conflict and disagreement over the nature of the problems facing the organizations and just how serious they are. It also allows for the possibility that different individuals and stakeholders may try to construct 'crises' in particular ways in order to mobilize support for actions they wish to pursue.

How are crises distinguished from the ordinary management problems that all organizations are constantly confronted with? For our purposes we consider it a crisis when at least some of the key actors in the organization believe the problems the organization face seriously threaten the organization's (or part of its) survival or legitimacy in some way.

Context

As Pettigrew and McNulty (1995, 1998) argue the behaviour of boards will be both constrained and enabled by the wider context in which they operate. They distinguish between the *outer context*, which includes the legal, political, social and regulatory context, which can help shape expectations and aspirations of boards, and the *inner context* of the board and organization itself.

For our purposes the inner context of the board –it's history, structure and culture - is particularly important. The size and structure of the board, its methods of selecting and socialising board members, its norms of conduct, and its relationship with the executive can all both constrain and enable what is possible for the board to do. For example, Lorsch and MacIver (1989:91-6) suggest boards often operate with strong norms of polite behaviour which discourage board members from openly questioning or challenging the chief executives performance or proposals, or meeting outside the board room. Both norms can make it difficult for boards to recognise and deal with crises.

Pettigrew and MacNulty (1995) suggest that the attitudes and behaviour of board chairs and chief executives can be particularly important is shaping the culture of the board and how active it is. They distinguish between 'minimalist' boards, where power is concentrated in the hands of the executive and 'maximalist' boards, where power is more widely dispersed. Bradshaw et (1992) identify similar patterns for non-profit boards, which they call the 'CEO dominant' and 'board dominant'. In addition they identify two other patterns of relationship one where the professional staff of the organizational are dominant in setting the overall direction of the organization, and other their 'collective governance, by a range of stakeholders.

Types of crises

The degree to which a board can shape particular issue will also depend on the content of the issue they face(Pettigrew and MacNulty, 1998: 204). The remit of the board means that it is more legitimate to focus on some issues than others. In this research we are particularly interested in different types of crises boards face, and the challenges they raise.

Based on case studies of private sector boards during crises, Lorsch and MacIver (1989) suggest that the main challenges boards face will depend on the nature of the crises. They distinguish between four kinds of crises according to whether they are – *sudden* or *gradual*, and whether their origins are *internal* or *external* to the organization. *Sudden* crises include lawsuits or the death of a chief executive (CE), and *gradual* crises include 'industry' decline, rise of competition, management failure, and dissension among managers. They suggest that the constraints on boards such as the time commitment required and the importance of their relationship with management will vary according to the type of crisis. This framework, summarized in Figure 1, provides a useful starting point for the investigation of non-profit boards.

	Sudden	**Gradual**
External	• Time • Use of experts • Tension among accountabilities	• Relationship with management • Information • Board leadership
Internal	• Time • Relationship with management • Board leadership	• Relationship with management • Information • Board leadership

Figure 1: The key challenges boards face during different types of crises (adapted form Lorsch and MacIver, 1989:165)

However, the structural differences between non- and for-profit boards, such as their voluntary membership and the frequent exclusion of senior management from board membership, suggest that the constraints faced by non-profit boards are likely to be somewhat different, (Cornforth and Mordaunt, 2003). In particular the two factor mentioned above may make the *time* board members can commit, and the board's *relationship with management* particularly important constraints.

Capacity of the board and executive

The ability of boards to deal with crises will also vary according to what we will call the *capacity* of the board and the executive. This is similar to what Pettigrew and MacNulty (1995, 1998) have called the 'will and skill' of boards. They argue that if board members are going to be successful in using their power sources they not only have to be *skilful* in exercising their powers, they also must have the *will* to use them effectively. They must also be able to *commit the time*, which is very important given their voluntary status, and have the *emotional resilience* to challenge the status quo and stick the course. We have know a number of boards where board members have resigned when things start to get difficult and the role becomes much more demanding of their time and energy.

Phases in dealing with crises

The literature on organisational turnaround generally suggests that there are stages in the process of dealing with crises which may lead to recovery/failure, for example Slatter and Lovett (1999: 61) in their study of corporate turnarounds suggest – crisis denial, hidden crisis, disintegration of the organisation, organisational collapse, and recovery/failure. We believe it is useful to distinguish between four broad phases, which we will call *recognition*, *mobilisation*, *action* and *transition*. We are not suggesting that organizations will progress through all these phases in a linear manner. Organsiations may get stuck during the early phases for example the crisis is denied or there are conflicting views and it becomes impossible to mobilize support of action. Equally, attempts to deal with an immediate crisis may lead to recognition that there are deeper problems with have to be addressed.

Recognition phase

At least board members must *recognize* that there is an important crisis or problem before they can be addressed. As note above, Lorsch and MacIver (1989) suggest that the nature of crises will influence how easily they are recognised by boards. They argue that sudden crises, such as a takeover threat or the death of a CEO are difficult to ignore, but gradual crises, such as a long-term deterioration in performance, are much more difficult to spot. They suggest two main reasons for this. As the board is usually dependent on management, management may present information in such away that it is not obvious there is a crisis, and even if the board feels something is wrong there are often strong norms about avoiding open conflict and challenging senior management.

The difficulty of recognising gradual crises may be compounded by two other factors in non-profit organisations. First, indicators of performance are often more ambiguous than in businesses, making it more difficult to judge what is happening. Second, trustees many lack the necessary experience and confidence to make these judgements. In many small non-profits board members may never have been a member of any other board and therefore lack experience of comparators of performance. Research by Gaskin (2001) indicates that some board members would like to have benchmarks against which to judge performance for they feel inadequate and over-awed in the face of staff knowledge and understanding of the ‘business’ and therefore unable to intervene effectively in the work of the organization.

Mobilisation phase

Even where some on the board members do recognize the underlying problems, getting the whole board and executive to address may be problematic. The problem may be denied or it may be difficult to get some kind of consensus for action. A process of mobilizing support for change will need to occur. Ryan (2002) offers the advice to funders not to try to go it alone and the same is likely to apply to board members. It may be difficult for a lone critic to mobilize the board and they are more likely to end up ousted as a trouble-maker. Not all the board members need to recognize the nature of the problems underlying the crisis, but probably the key influencers on the board do need to.

Meyer and Zucker (1989) suggest that different stakeholders have differing interests in overcoming performance problems. Whereas boards and funders are likely to be interested in overcoming crises by making changes and improving performance, staff and customers are more likely to be more concerned with organizational maintenance – keeping things are they are to preserve existing jobs and services. When stalemate exists between these countervailing positions, because it is not possible to mobilize a coalition for change, the result is 'permanently failing' organizations.

Nor are all organizations that perform poorly deemed to fail or be in crisis. Seibel (1999) cites the notion of 'successful failures' – organizations that are performing badly, but because they assist society to address its cognitive dissonance about social problems that are troubling but inherently irresolvable, the board combines with funders to maintain the illusion that they are doing something useful. Here resolving crisis is not the issue, but rather maintaining the illusion that the organization is 'dealing with the problem' whether it is homelessness or child cruelty.

Lorsch and McIver (1989) suggest that in order for boards to take a more proactive role they have to break established norms that they do not openly criticize the CEO and expose failings and secondly, that they do not socialize with each other outside board meetings. They also see as critical, the willingness of one member to put themselves into a leadership position. This problem may be particularly acute in the commercial world in the USA where the roles of board chair and CEO are often combined. This suggests that non-profits might be more likely to tackle problems as the legal and regulatory framework means that board members including the chair are independent of management. However, as we indicated above there are other constraints that may prevent this happening. The ability of board members to discuss issues outside board meetings and free from management also appear to be crucial factors. The building of social contacts and trust between board members is an important part of the process. In one organization in which one of the authors was a board member a key factor in mobilizing the board was the introduction of telephone conferencing. This enabled the board to overcome distance factors inhibiting more frequent board meetings that had often been ill-attended. As a result the board was able to agree a strategy for change.

Action phase

Once the problem or crisis is acknowledged by the board and support has been mobilised to tackle it, the board has to decide what the best way forward is. As Lorsch and MacIver (1989) note time is a critical issue in sudden crises as boards have to limited time to resolve problems. This issue may be even more acute in non-profit organizations where board members are volunteers. A local development agency, where one of the authors was on the board, faced a crisis when there was a major cut in funding and dissension among the staff. In order to help resolve the situation, the board met six times in as many weeks as well as additional contacts between the office-bearers by telephone and e-mail to formulate a solution. This level of commitment may cause some board members to resign from the organization at this stage being unwilling to give their time to conflict resolution.

Slatter and Lovett (1999) in their study of corporate turnaround indicate that at this stage the problems can appear multitudinous and there are some key issues to be resolved. There is a need to assess whether the organization can survive in the short-term and whether it is viable in the medium to long-term. There may also be a need to do some deals with funders to buy space for the change. Options need to be assessed and key problems diagnosed to determine the best strategy for short-term survival. At the same time there is a need to manage relationships with all the key stakeholders and in particular the organizations senior management or staff. If, as in many crisis situations the problem is at least partly due to the management failures, and the board is having to manage the crisis either without a chief executive or without their full support, the challenges can be daunting. It is small wonder that many of these volunteers decide that this not something they wish to tackle.

Transition phase
Once the main changes to resolve the immediate problems have been made there is a further phase of transition. During this phase further smaller changes may need to be made to consolidate the change process. In addition people often require a longer period to adjust emotionally to the changes that have been made (Bridges, 1991; Allison, 2002). Paradoxically it is during this phase when the organization is on the road to recovery that board turnover may occur. The stresses and time commitment needed to resolve the crisis may take its toll on board members. Our experience suggests that some trustees are inclined to feel that they have made their contribution and take the opportunity to resign. This can have the effect of removing support from staff just when there is still much work on organizational issues to be undertaken. New trustees may not have the same sense of commitment to the organization or a sense of what it has gone through. Perhaps as a result the board may gradually move back into a much more passive role. Wood (1992) suggests that non-profit boards oscillate between a 'super-managing' phase where the board effectively runs the organisation, followed by a gradual drift back to CEO dominance, until the next crisis.

Research Methodology

Designing research to explore how non-profit boards deal with crises raises a number of important methodological problems. McNulty and Pettigrew (1999) note the over-reliance on survey research in studying corporate governance and call for studies which get closer to the board room. Similarly Peck (1995: 139-140) notes the over reliance upon one source of data, usually the perceptions of board members gathered through interviews or questionnaires. This is problematic for two reasons. First he suggests board members are unlikely to 'reveal their own irrelevance' and so are likely to over emphasise the relevance of their role. Second the studies lack any independent confirmation of actors' accounts. As a result Peck calls for more detailed case studies of boards that rely on observation and other methods.

However, conducting case studies of boards facing crises is likely to be particularly difficult. Gaining access to organisations that are experiencing crises is likely to be more difficult than usual for a number of reasons. Sudden crises by their very nature happen quickly and may be over before it is possible to gain access, even if it is possible to find out about the crisis in the first place. In addition in such pressured situations organizations may be unwilling to give access to researchers. In principle it may be easier to gain access to organisations experiencing gradual crises. However, it may be difficult to gain access at the early stages in the 'crisis', because as we have argued above, problems may be difficult to recognise or are denied. Equally gradual crises may take a long time to resolve requiring longitudinal research over a number of years. Even where access is granted actors may be unwilling to talk or try to cover up failings.

One way in which some of these problems may be addressed is through the use of multiple methods of data collection. We intend to use three main methods: interview with practitioners, who have first hand experience of boards having to deal with crises; interviews and discussions with an 'expert' panel of consultants and advisers who work with boards facing crises, and third we will conduct a small number of case studies of board facing different kind of crises. By triangulating between these different data source we hope to overcome some of the problems identified above. Each of these will be discussed in more detail below.

Preliminary research has shown that practitioners are willing to discuss their experiences of how boards deal with crises if it can be done in such away as to preserve their own anonymity and that of the case. Indeed after making presentations a number of individuals have volunteered to be interviewed. We will be carrying out interview with both board members and chief executives who have been in crisis situations.

One group of people who have regular experience in how boards deal with crises are board consultants and advisers, such as insolvency experts. It is intended to interview a range of experts about their experiences of advising non-profit organisations dealing with crises. In addition a small number of focus group discussions will be run with practitioners and advisers to comment on findings and issues emerging from the research.

Finally, a small number of cases of board dealing with crises will be examined. These will be chosen to compare the challenges and constraints facing boards dealing different kinds of crises. Access will be facilitated by a small expert panel set up to advise the project.

Next we report on the initial findings from some pilot interviews and a group discussion.

The Evidence

As a way of developing our ideas about the issues of organisational crisis, failure and recovery, we have been making presentations and holding discussions with practitioner audiences e.g. Charity Fair 2002, 2003, Economic and Social Research Council Seminars on Governance 2002 and so on. More recently one of us facilitated a workshop as part of a major consultancy on governance covering similar issues. At one of these seminars, a number of people offered to talk further with about their own organisation's experience of crisis and what they observed the process to be.

This part of the paper gives an account of crises and their consequences as they saw them. Obviously their view is partial and one-sided and there are aspects of the cases that are not clear, but they do tell stories that other practitioners seem to recognise. This is affirmed in the discussion by indication when similar issues arose in the focus group or was raised in the interview with the expert. This suggests that there may be some common features to the dynamics of crisis management for boards which merit further and more systematic investigation. We analyse what these may be, tease out some of the common threads that run through the cases and develop some conclusions that will generate hypotheses to test in subsequent research.

The Context

The four cases are very different. The first is a community based urban regeneration project (URP) in a deprived part of a British city. The second is an old-established professional membership association (PMA). The third is a local branch of a federal organisation (LBF) and the final case is a highly specialist service for children with disabilities (SDO). The expert is an accountant specialising in nonprofit organisations with problems. The focus group was drawn from people with a particular interest in governance of small organisations. Following the theoretical framework we developed earlier, firstly we will discuss the contexts of the cases.

	Case 1 **URP**	**Case 2** **PMA**	**Case 3** **BFO**	**Case 4** **SDO**
Internal Context Board composition	Generally inexperienced local activists	Composed of members of the organisation	Large *'representative'* board including funders, other local infrastructure bodies and local authority agencies, volunteers and staff.	Initially trustees put in place by parent trust – mainly drawn from business. Became self-perpetuating.
Size and subcommittees	10 people – no subcommittees initially later established personnel sub.	8 people with large approving policy sub-committee of 35	25 people - Personnel subcommittee of 5.	Around 6 people - but unclear how many members there were supposed to be
Issues in board/staff relations	'Collusion' between founding chair and chief officer	Board included two former members of staff of the organisation from 1970's one of whom is currently	CEO not secretary to the board which rested with a long-standing volunteer.	Mainly reactive to staff initiatives – appeared uninterested in the organisation

		chair 2. Unwilling to cede authority to the CEO 3.. Board has strong sense that it is *'accountable to history'*.		
External Context	1. Government keen to involve 'socially excluded areas' regeneration issue 2. Meshed into local political 'mafia'	1. Stability of external funding environment shifted in 1980's	1. Head office seeking to modernise local branches by introduction of new technology and quality standards, performance indicators etc.	

From this it appears that each organisation arises from quite different contexts and has quite different sorts of people and relationships between the board and the staff. However, there is one common feature. Sometimes in the literature it is referred to as *'founder syndrome'* but it is not quite as straightforward as that. The expert informant described it as *'one strong individual'* – in each of these cases there had been a dominant personality in the immediate period before the crisis erupted. In the URP, there was a founding chair who had been in place for 15 years, in the PMA there had been a long-serving CEO for 20 years prior the period of crisis erupting in the early 1990's, in the LBF there was had been a founding CEO who had been in post for 19 years and the SDA had had a strong founder who was ousted in after 8 years, but the CEO was also a strong personality. This settled order was disturbed in all the cases.

Types of Crises

We will now discuss how the cases compare on the types of crises and presenting problems they displayed

	Case 1 **URP**	**Case 2** **PMA**	**Case 3** **BFO**	**Case 4** **SDO**
Type of Crisis – Presenting Problem	*Multiple- sudden* 1. Money for grants going astray 2. Resignation of chair 3. Resignation of senior development officer	*Multiple - sudden and gradual* 1. Ballot-rigging for board by chief officer and subsequent dismissal and bad publicity 2. On-going financial crisis leading to staff redundancies	*Multiple – sudden* 1. Breakdown of relationships between new director and members of the team 2. Followed by breakdown of CEO/chair relationship 3. Grant cut by local government funder	*Multiple sudden and gradual* 1. Failure of merger with major institution 2. Leads to deterioration of CEO/Chair relationship 3. Underpinned by long-standing funding problems

One thing that is interesting compared to Lorsch and McIver's analysis is the multi-layered nature of the crises. Troubles did not come singly.

In all the cases there was a breakdown in trust at some point in the emergence of the crises. In the URP, it was the questioning by one committee member about missing grant applications that precipitated the resignation of the chair. Once the collusive nature of their relationship with the chief officer had been broken other problems rapidly became apparent. In the PMA, the chief officer became frustrated with the blocking of 'reform/ modernisation' by two members of the board and sought to remove them by any means. In the LBF as relationships with the staff worsen, the Chair starts to lose confidence in the CEO leading to them becoming more interventionist in day to day management generating a downward spiral of stress and worsening relationships. In the SDO, pressure on the chair and the committee to take more responsibility for the decisions, leads to worsening relationships with the CEO, combined with the latter's perception of the chair making fundamental mistakes in dealing with problems.

Moreover, for all of the organisations, underlying the issues that precipitated the turmoil, were more deep-seated problems. Three of the organisation had longstanding funding problems and the other was the recipient of a sudden large change (for the better) in their financial situation. It was noted by the focus group that both withdrawal of funding and paradoxically, suddenly receiving large grants are both triggers for crises in nonprofits.

A common factor underlying all of the crises was neglect of some of the basics of good organisational governance and management. The URB had been turned from a community association to a part of an urban regeneration partnership without apparently any preparation – there had been no board development, no systems and procedures established, there appeared to be no staff management and little knowledge of what was required to run an effective organisation. The PMA had outdated governance structures and it had failed to spot the seriousness of environmental changes which meant that the income stream it could rely on for many years was in substantial decline with consequences for the maintenance of the organisation. The LBF was subject to a centrally-driven change agenda that that was top-down and had a governance system that was poorly in touch with the organisation – the board was banned from visiting the organisation during working hours as this was seen as breaching confidentiality. This probably meant that the board adopted an implementation strategy without regard for local sensitivities as they were insufficiently in touch with the work. The SDO, being set up a wealthy founder who had dipped into her pocket when finances were needed, had never really had to clarify its raison d'être nor did it have a robust strategy or fundraising plan even after she had departed. In none of the organisations had work been done with the board to build a common purpose and vision for the organisation, but in this one in particular, the board seemed by the account to be semi-detached from the organisation. This was underscored by the focus group where people observed that governance fails when members lack a common purpose. However the expert put a different spin on this – observing that the real problem in nonprofits was a general commitment to *'mission not management'*. Boards focus on ends and pay insufficient attention to means.

The Capacity of the Board and the Executive

In our cases some were more successful than others in resolving the crises as the next table shows.

	Case 1 URP	**Case 2 PMA**	**Case 3 BFO**	**Case 4 SDO**
Turnaround achieved	Partial – initially successful but momentum lost and slipping into a new set of problems	Partial and several attempts at it – very difficult to create a coalition for change hence 4 directors since 1993 including an interim change manager. Perhaps example of '*permanent failure'?*	Yes – new Director in post with revised job description but information re degree of success limited as informant no longer with organisation	No – organization closed down

What were the factors in the capacity of the boards and the managers that distinguished the more successful from the less successful in dealing with the crises?

One focus group member observed that she loved crises because of the opportunity for change they presented and this is confirmed in the literature: a crisis may be 'an opportunity for reform, innovation, exercising leadership and organisational and individual learning' Sundelius (1998) in Borodzicz et.al. In change management terms they can be an 'unfreezing moment' when major changes in the organisation may be made. Which of our boards seems to have had the capacities for change and which did not? What did those capacities appear to be and what were the constraining factors for all the organisations.

First of all, the board has to want to make the change. This requires some *leadership.* Someone has to be prepared to take the lead in sorting things out. In the URP, our informant claimed to be that person – she had some skills gained in another context which made her aware of the need to formalise the organisation and insert an 'element of management' into the organisation. In the PMA one of the problems they encountered was the difficulty in creating a coalition for change. The board is high status and that has made it difficult for successive CEO's to manage the board and interest them in the process of managing the organisation as opposed to the mission. The attempts at leadership have been coming from the management side and the desire to maintain the status quo has come from the board – the obverse of Meyer and Zucker's argument who see the staff as likely to seek maintenance and the board as having an interest in change and efficiency. In the LBF leadership came from a newly appointed chair who was semi-retired and who therefore had more time to pop into the office and see how things were going. In the SDO again the CEO attempted to provide the leadership and was frustrated by her inability to control what the board did *not* do. There appeared to be little leadership from the board and what there was, the CEO felt was inappropriate.

Time was a critical factor for all the boards – there was a critical decision to be made as to whether the board members wanted to devote the time to sorting out the organisation. And this seems to have been the issue in the SDO – in the end the board were not sufficiently committed to the organisation to want to devote the time to it. When it was going reasonably well, they were happy to let the CEO take the lead and to approve her suggestions, but when the going got tough, they seemed not to have the energy to sort it out. In the PMA, the board met about once every six weeks but did not appear to have the time to meet outside of meeting and also they were geographically dispersed which seems to have been a further barrier. Part of the assessment as to whether it was worth the *time investment* was some assessment of the *support of other board members* to tackle the problems.

In both the relatively successful cases, the boards had access to *expertise*. In the case of the URP, they had to go looking for it, but once they had asked for help it was freely available from local infrastructure agencies. The expert concurred in the vital role played by locally available expertise from these agencies. Once the chief officer had left, in addition the board secured a secondee from the local authority, as an interim manager to help sort things out. In the LBF, the personnel subcommittee itself possessed the necessary expertise – they were lawyers, accountants, retired academic and a very senior civil servant. In the SDO, the expertise the chair accessed was poor and this contributed to the worsening of relationships between her and the CEO. At one point the PMA brought in an interim manager but he did not seem able to overcome the paralysis of the power struggle with the board. It was suggested that this might have been because he was from a local authority background and lacked expertise in managing what was actually quite a small voluntary agency.

The expert had a number of observations on the capacities boards needed. He recognised that time, skills and systems are needed but he felt that many boards are unable to tackle problems because they lack the emotional resources to deal with the issues. He felt that this was a particular problem for organisations where there was a high degree of user participations and that these needed strong support if they were to survive a crisis. Emotional resources were also an issue for the focus group who felt that negotiation skills were key to tackling problems and that this was particularly tricky in the voluntary sector because there was often role fusion – with the personal being hard to separate from the roles. Indeed both the expert and the focus group identified *conflict avoidance* as a key factor preventing boards dealing with crises. Although it may be argued that this is feature of all life, the expert in particular felt that this was more of a problem in nonprofits because of their highly personalised cultures which made it harder for boards to raise difficult questions with highly committed staff for fear of how they may react.

One issue not present in commercial contexts that constrains board is *politics.* It is clear that intervention by an external agency can be key in precipitating a reluctant board to take action but in particular in the URP, the local political power structure actually prevented external people from intervening. The founder chair was tied into the politics of the locality and my informant speculated that it was probably too much of a risk for local government officials to draw attention to the failings of the project and perhaps in the process bring themselves into the line of fire from their own political masters.

Phases in dealing with crises

We now turn to the extent to which our boards passed through phases in dealing with crises. How did they recognise and conceptualise the crises and what did they do about them?

Recognition

This is obviously the critical first step and the theoretical framework drawing on Slatter and Lovett presupposes a rational action framework, where boards recognise crises and deal with them or if they fail to do so, this is because they have imperfect information. However the picture in reality seems more complex than this. In the URP, the factors that precipitated the recognition of the funding crisis was that a new member joining the board was able to ask questions that others either did not recognise as problems because they had a limited experience or had deemed politic not to ask. This role of a new member in asking difficult question seems to be a common feature in a number of cases. There are also strong pressures not to ask to questions as our focus group identifies, for if a board member asks questions that expose problems then there follows potentially a responsibility to deal with them. This is confirmed by the expert who felt that while basic information and communication are vital in recognising problems there were those who blocked out recognising problems – *'some individuals shut out any possibility that someone else might be right'*.

In the PMA successive CEOs attempted to get the board to focus in a more consistent manner on the problems confronting the organisation but with limited success at least in part constrained by their own lack of experience of operating within a small organisation context. Although the presenting problem was the dramatic events triggered by the ballot-rigging, it was the underlying issues of a power struggle between the board and the CEO for control of the agenda and the financial problems that posed the more serious crises. Our focus group observed that *'different power bases and no protocols for dealing with them'* were major sources of crisis. The problems in this organisation keep rumbling around because no one is empowered to allow the board and the staff to talk about their differences in a constructive way. The last but one CEO brought the boards attention to the financial crisis in a dramatic way, by taking no salary for three months – however as he had other income he could afford to do this – but it did at least get the board to address the need to reduce costs and staffing.

In the LBF the board could not avoid the turbulence in the management team as first one member of staff resigned claiming she was unable to work with the CEO followed by another member of staff taking out a grievance. But what really focused them on dealing with the issues was a funding cut by one of the local authority funders. It was at this point that the problems started to feel like they could not be resolved by this particular individual. However, the issues seem to have been dealt with a fairly surface manner and the underlying issues about culture and strategy probably remain unaddressed.

The SDO on the other hand was quite straightforward. The board may or may not have recognised the problems, but what they appear to have been clear about was that they did not wish to involve themselves in the hassle of sorting things out. They took a swift decision to close the organisation down once the proposed merger failed. It seems that here is a board that was highly dependent on the CEO. What precipitated the merger talks was the CEO indicating that they needed to undertake some succession planning as she was considering when she might retire. This seems to be reinforced as when the organisation closed, board members expressed irritation that they would have to take responsibility for finalising the closure with the Charity Commission as the CEO could no longer act for them as she was made redundant.

Mobilisation

In both the cases where there was a degree of success, *small subgroups of the board* are involved. In the URP an informal sub-group emerged meeting outside of board meetings. After the board meeting four of them – the main office bearers would go to the pub and discuss what they might do and how it might be achieved. This sub-group also made an assessment of what it was realistic for them to seek to achieve given the time constraints they faced (they were all in full-time work). As a result of this there grew up a degree of trust between them which gave them confidence to tackle the problems.

Similarly in the LBF, it was in the personnel sub-committee, a much smaller grouping than the full board that the main discussions about how to deal with the crises seem to have taken place. In both these cases these were *safe* places to raise questions about how things were going, that the main board was not. In the URP, the board was unsafe because staff were there and feeling threatened by the questions being asked. In the case of the LBF, the board was an unsafe place to ask questions because of the presence of funders, all the local great and good and other organisations in the locality as well as staff. There was a reputation to lose. It is also clear that the financial problems in both the two cases that mobilized relatively effectively were a clear trigger for action.

Despite many efforts by successive directors, in the PMA the board was hard to mobilise. Efforts to engage the chair in developing strategy for example were frustrated by the time delays this built into the process as he was slow to respond to initiatives. The current CEO felt that they did not really understand the role of a board and were reluctant to listen to someone they saw as a bit of a youngster. There were clearly status issues involved in this case.

The expert observed the importance of 'the social side' – there has to be a pay off for the board to take on issues like this. He felt that networking and developing good relationships within a context that matters to the board members was an important feature of effectiveness. The building of trust was important to mobilisation and there is something bonding about surviving adversity – *'our parents saw the war years as the best years of their life'!*

Action

Once boards decided to take control and act, time issues are to the forefront. In both the LBF and URP there were additional meetings of the board and of the sub-groups. In the latter case they were meeting every few days to touch base.

At this stage of the resolution of crises in both cases the chief officer of the organisation lost control of events and subsequently left the organisation. Although both left 'voluntarily' in reality there was little alternative as relationships had broken down irretrievably. In the URP, it emerged that the CEO has been pretty much a law unto herself and when said to be working from home was found not to be there. The board's relationship with the other development officers on the staff team started to deteriorate at this point too, as they felt that they were being blamed for the things that had gone wrong.

In the LBF, relationships between the CEO and the chair started to deteriorate rapidly as the chair became more involved in operational issues and effectively took over the day to day running of the team meetings from the CEO. This person had the time to get involved but it is clear from the expert's testimony that this willingness to be fairly 'hands on' in terms of involvement is not unusual at this stage of crisis management.

Transition

Once the initial crisis was resolved in the LBF a number of board members resigned. In this case they seemed to on the losing side in the arguments over whether to resolve the financial crisis by closing one of the organisation's offices. My informant in the URP was also considering resignation, feeling that she had done her bit for the organisation. The expert suggests another reason for board resignations at this point too – quite simply that this sort of problem-solving was not what the board member signed up to do. They wanted to support the mission and the unpleasantness that frequently surrounds these kinds of problems was not something that they wanted to deal with.

Conclusions

This evidence leads us to a number of conclusions. Firstly what is clear from these studies and the focus groups is the fragile nature of organisational life. Each organisation may be seen as *a negotiated order* which is easily tipped into disequilibrium by 'events'. Those that seem to be particularly vulnerable are those that have been dominated by a strong individual for a number of years who then departs. This may be a *founder* but equally it may be a long-standing chair or chief officer. This departure seems to be a moment when questions may be raised that have not been raised before, whether because the new person needs to establish their credibilty or because there was greater acceptance of the activities of their predecessor.

The events that may cause these questions to be asked can be conceived of as *'dangerous moments'* in the life of the organisation that have the potential to expose underlying weaknesses, in particular some of the process issues that we have identified were not addressed in the case. Dangerous moments that these cases seem to exemplify include:

- Selecting a new chief officer or chair
- The loss of a significant grant
- The award of a significant grant
- Moving from unpaid to paid workers
- Developing management capacity as the organisation formalises
- Exploring merger with another organisation.

The focus groups and the expert also identified:

- Illness of a key member of staff

Such events disturb the established routines of the organisation and how the board and the staff respond to these may affect whether the organisation survives or not. They are what are known as *'unfreezing factors'* in change management and they can have very positive effects but what they do is to test the strength of the fabric of the organisation. This is where the underlying issues come into play, as it is these often long-standing unresolved problems that come back to haunt the organisation. Common underlying problems include:

- Failures of environmental scanning e.g. threats to what has been fairly secure funding base for a number of years
- Lack of attention to process – what our expert calls *'mission not management'*
- Failure to develop the board
- Unresolved arguments about strategy and values
- Mismatched changed agendas in federal organisations that don't take account of the situation at the grass roots.

There seem to be a number of *'familiar stories'* which follow common patterns. The executive transition one is interesting as it is one of the moments when the board is truly in charge of the organisation. The pattern seems to be that the board has a notion that the organisation needs to change and recruits a new chief executive to bring this about. However, the change issues are ill-thought through and as the new CEO starts to implement these, patterns of resistance emerge which they did not anticipate. This often leads them to blame the new CEO and this person is dismissed. With luck the next appointment process is more carefully considered and the next incumbent can actually bring some of the changes about.

Another familiar story is about the local political context where a government agency needs to spend money that involves *'the people'*. They look around for a suitable vehicle to do this, often a small community group and give them *'loads of money'*.

The group lacking any preparation for handling large sums of money or managing the staff that go with it, gets into trouble and then are either blamed for their inadequacy or as in our case the problems are ignored because those in a position to help feel that this will best serve the political interest and at times trying to show the organisation is succeeding (usually in the face of all the evidence to the contrary).

The PMA illustrates the way in which old-established charities can lose their way. The British press has had several recent examples of this of which the Royal Society for the Prevention of Cruelty to Animals (RSPCA) is just the latest, with its very public blood-letting. Underpinning stories like these may be issues about high status boards to which people are recruited because of ‘who they are’ rather than ‘what they may bring’ to the organisation. Moreover such people are often less amenable to board development both for reasons of time pressure and because they may feel they already know it all. The disputes that break out into the open are usually about the core values of the organisation although they can manifest in ways that appear to be quite petty. Those that have a membership often how unresolved issues about the extent to which that membership is capable of controlling the operations of the organisation.

Yet another story which can be linked to values, is the one about ‘moving on from charisma’ – many voluntary organisations are set up with passion by one committed individual but if the organisation is successful and grows then there is a need for it to become more formal. This process of formalisation may seem to dilute the values for which the organisation stands and require the founder to follow procedures and be accountable in ways which previously they have not had to be.

Many of these situations are likely to involve power struggles between different factions and how boards respond to these situations can be critical to the survival of the organisation. Crucial in all these situations is communication between the board and the staff and in particular between the chair and the CEO. Breakdowns in this relationship are common in all of these crises. However, it can be very difficult for boards to react as they often feel not fully aware of the issues and there appears from this evidence to be reluctance to act if they do not feel committed to the organisation or fear that they may be wasting their time in trying to save it. This seems to have been the case with the SDO. The people on the board in effect lost nothing if the organisation disappeared. They did not have a significant enough stake in its success. The URP board on the other hand did. They saw that their community would lose control of significant assets that could be spent locally.

The role of funders in creating a focus on the issues is also worthy of further investigation. To what extent do funders use their power to focus an organisation on dealing with its problems by withdrawing grant for example? All of these organisations appeared to have financial problems but what extent is ‘finance’ a metaphor that is used to focus boards on dealing with problems because of its capacity to threaten survival? Linked to this is the poor quality of financial information in many nonprofit organisations – where neither the board nor the staff may understand the significance of the figures presented to them.

These issues all merit further exploration. All we have been able to do with this preliminary research is to show in even more detail the richness of the terrain and the issues to explore. We are hopeful that in the next year we will be able to conduct more detailed studies and to focus on different aspects of this

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