Rising to the challenge or running for the door? The role of governing bodies in dealing with organizational crises

Conference or Workshop Item

Rising to the Challenge or Running for the Door? The role of governing bodies in dealing with organizational crises.

Paper for the 31st Annual ARNOVA Conference, November 13 -16, 2002, Montreal, Canada

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Keywords: governance, boards, organizational crises, power, change

Introduction

'Directors are like firemen. They sit around doing relatively little until there is a fire alarm and then they spring into action' (company director quoted in Lorsch and Maclver, 1989: 97).

An important theme in the literature on corporate (for profit) boards is the importance of situational factors in influencing board power. Although much rhetoric flows from regulatory bodies and the like (Charity Commission, Cadbury, Hampel) about the role that boards ought to play in organizations, generally the literature suggests that boards have relatively little influence during 'normal' times, when they tend to play a reactive role. Indeed Taylor et al (1996) observe that 'nonprofit boards rarely work effectively'. It is suggested that it is only during organizational crises that boards are 'forced' to step in and exercise real power (Mace, 1971; Lorsch and MacIver, 1989; Zald, 1969). However, the importance of organizational crises in stimulating board change has not been such an important theme in the literature on non-profit boards. It figures most prominently in Wood's (1992) life-cycle model of non-profit boards, where she suggests crises are a key factor in precipitating change in the boards role.

In the commercial sector, in the wake of major corporate scandals like Enron, there is growing concern to make board stewardship of company activities more effective. In the UK a recent government report (Higgs, 2002) proposes a number of changes to the role of non-executive directors in the interests of increased effectiveness and accountability. Similar concerns exist about the effectiveness of nonprofit boards. The UK government is concerned about the performance of public sector organizations and is increasingly drawing the voluntary sector into the role of providing public services. All these organizations are subject to quality checks and performance audit. This has created a new kind of crisis for organizations subject to inspection and accountability – being 'named and shamed'. It has become the practice of the government to compose 'league tables' of performance and to publicize the performance of all. 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'. In England and Wales the Charity Commission, which regulates charitable activity (like the 501c3 inland revenue measures in the US) has just 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 but it will be interesting to see what happens to those organizations who perform unsatisfactorily. The pressures on board members to ensure that their organization is effective have never been greater.

This paper is exploratory. It aims to develop a theoretical framework for researching the dynamics of non-profit boards during crises and to understand what distinguishes boards that successfully weather crises from those that do not. It will explore some of the literature around boards and crises and examine how crises are constructed. It sets out the differing responses boards may make to crises and consider the constraints on boards making effective responses. It draws on existing case studies (e.g. Cornforth and Edwards, 1998 and cases investigated by the English Charity Commission) and the authors' own experiences of boards to generate a number of research questions to guide further research.

Boards and Crises

In their work on business boards Lorsch and MacIver (1989) suggest that the nature of the crisis will affect how boards respond. 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. These may include unfriendly takeovers or mergers, lawsuits, loss of CEO, industry decline, rise of competition, failure of the CEO and top management, dissension among managers. Different sorts of crises will pose different kinds of challenges for boards. The table below sets out how the differing types of crises they see may arise (adapted by us for the nonprofit sector) Clearly whether the crisis involves board and CEO acting together or involves the

	Sudden	**Gradual**
External	• Withdrawal of funding or contract • Breakdown of relns. with key partner • Lawsuit	• Decline in relevance of mission or services • Rise of competition
	Scandal	Poor performance
Internal	• Unexpected departure of key staff	• Failure of CE and management/staff • Dissension among management (or staff)

Nature of Crises (Adapted from Lorsch and MacIver, 1989: 99) board taking power from the CEO may make the board more likely to act or not It is one thing to tackle a crisis where work is delegated to full time staff members. There are huge implications for boards tackling problems without dedicated staff support and where the organization may be in turmoil.

How boards respond to these crises may be critical to whether the organization survives or not. For example, Harker and Sharma (2001) examining four case studies of turnaround in engineering companies suggest that the one that failed resulted from poor board performance in the crisis. They argue that leadership is important and that in order to turn around the company, leadership needs to utilize three drivers for change: 'industry wisdom' i.e. developing a clear picture of the state of the industry including the environment and new technologies, 'destiny development' i.e. making plans that create a new vision for the organization credible to all stakeholders and 'organizational enhancement' – the capacity to engage all the players to the new vision and carry the change deep into the organization. The role of the professionally competent board in this process is to 'provide leadership in the turnaround process and when working with the chosen chief executive officer, can amplify his/her efforts and provide necessary support in the process'(p45). The failure of the one company to resolve its crisis resulted at least in part from the lack of engagement of the board with the issues. Similarly, Pettigrew and McNulty (1998) examining two cases studies of the ousting the chairs of companies, stress that it is a complex inter-relationship of context, structure, power sources and 'will and skill' combine that brings about successful resolution of crises.

Relevance for Nonprofits?

How relevant are the Lorsch and MacIver framework and these other approaches for non-profit organizations? There are important similarities and differences with for-profits, but in certain areas the framework needs to be elaborated and developed. For example that the nature of crises varies somewhat in non-profit organizations, and the clearer separation of board members and managers may influence how non-profit boards react.

Signs of impending crisis in the commercial sector are usually taken to be performance failures such as declining profits or threat of takeover. Certainly these are the kinds of issues that Lorsch and McIver have in mind. But in the nonprofit sector where the commercial bottom line of profitability is absent, judgment of performance is much more difficult. There are differences in the nature of crises too - takeover and merger are not usually a threat. External crises are more likely to be provoked by threats to the funding base. Problems measuring performance may mean internal problems and crises more difficult to spot, and sometimes it is possible to ignore or accept them in ways which might be more difficult to do where there is a commercial bottom line. Meyer and Zucker (1989) and Meyer (1999) argue that performance is an inherently problematic concept in all organizations. Their concept of 'permanently failing' organizations will be explored further later in the paper.

Also the role of funders who often seek to influence the direction of the nonprofit differs from that of shareholders. Ryan (2002 Ford Foundation) identifies a number of symptoms that grants are going wrong that includes inattentive boards of directors who lack appropriate structures to track grants and financial performance, not in tune with customer needs. This he suggests will mean that staff are not regularly challenged or supported in carrying out their work. Funders have a vested interest in ensuring that those they fund have robust governance systems so safeguard their investment. What role do they play in crisis management?

One key difference for nonprofit boards is that generally the work is either entirely voluntary or in the case of for example Health service non-executive directors remunerated at a level that in no way reflects the demands of the role. This is likely to amplify issues about time commitment that Lorsch and McIver raise (see below). Also the voluntary nature of board may also result in greater diversity in experience, skills, time constraints, possibly higher turnover etc. This may make dependence on paid staff and CEO greater and hence more difficult to challenge.

There is, however, relatively little written specifically on the role of nonprofit boards in managing crises. Wood (op.cit.) suggests that after an initial ‘collective’ phase nonprofit boards tend to oscillate between a ‘CEO dominant’ pattern and, precipitated by some crisis, a ‘board dominant’ or ‘supermanaging’ phase where the board effectively runs the organisation, followed by a gradual drift back to CEO dominance, until the next crisis, but she does not explore the dynamics of this in any depth.

Do Boards Recognize Crises?

However, as with private sector boards it as a big step for nonprofit boards to move from a relatively uninvolved advisory role to that of active decision-taker. Essentially there is a range of potential responses that boards may make to crises and this will be contingent to a large extent on the state of board development.

Slatter and Lovett (1999) ague there are four stages to crisis development in commercial organizations. Initially the crisis is denied and because of complacency, signs of crisis are not recognised. Secondly it is ‘hidden’ usually because the organisation believes it will pass. Then as some disintegration occurs, there is some action but usually not enough until the stage of organisational collapse when there is either turnaround or failure

It does appear that there may be a continuum of potential responses by board which the diagram below depicts.

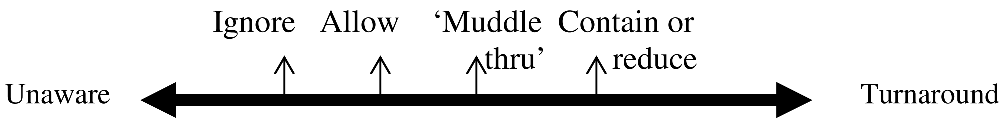

Figure 2

In order to intervene boards will have to go through certain stages in order to mobilize their otherwise latent power and there are a number of constraints that may prevent this occurring or even if it occurs being effective. Lorsch and McIver suggest that constraints include time commitment, changes in role i.e. becoming more ‘hands on’, accountability issues, whether experts (e.g. lawyers) are available to support board decision making and the state of the board's relationship with the CEO. However we are suggesting that the constraints are more complex than this.

Firstly there has to be an acknowledgement that a problem exists. This in itself can be a particular problem in many non-profit boards where indicators of performance are often more ambiguous than in businesses. Often boards, particularly in what are now termed socially excluded areas may well lack models of good practice on which to draw. In one study (Mordaunt 1989) a drop-in center run by unemployed coal miners was run with the same style of management used they had observed in British Coal. This was confrontational and unsupportive to the staff. Training programs overawed them – they felt uncomfortable and out of their depth. They simply did not know what their role was meant to be. Samples of inquiry cases on the Charity Commissions website (2002) indicates that ignorance on the part of trustees is commonplace in many charities. The ignorance is often gross. In one case a solicitor who was also a trustee had been paid £9K for legal advice when the law prohibits trustees benefiting financially from their position. In other cases flagrant breaches of good practice have occurred such as building extensions to buildings without planning permission or fundraising using collection tins in the name of other charities. Many trustees are simply unaware of their responsibilities and therefore unlikely to recognize that the organization is facing serious problems.

In many small non-profits trustees may never have been a member of any other trustee body and therefore lack experience of comparators of performance. For example, Gaskin (2001) indicates that some would like to have some 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. For example in one case study we undertook of a women's organization there was little knowledge of other organizations although it was clear that some members of staff felt that the trustees ought to be asking more questions about the organization's performance (Cornforth and Edwards op.cit). This lack of knowledge often compounds the problem even when it is recognized, as the diagnosis may be of superficial 'presenting problems' and cast in terms of agency rather than seeking to address the underlying issues.

There may also be reluctance to take responsibility and provide leadership for change. Conflict avoidance permeates the nonprofit sector which often relies on a culture of 'friendship' and informality in management. This can work if all is going well but when disputes arise the whole fragile 'house of cards' can fall down without any adequate frameworks to hold the disputes in place. Often recognising some of this, boards may prefer to avoid conflict rather incur the costs of greater involvement.

Some boards may get caught in vicious circles of crises as they seek surface solutions and fail to resolve the underlying issues. They muddle through but fail to identify the underlying causes of the problems, which tend to be focused on individual and group failings rather that looking for organizational issues. For example a young people's counseling and support project eventually ended up dismissing its CEO for failing to manage the staff effectively but the real problems stemmed from the way it had been established and lack of clarity over structures. The project was under-staffed as the funders had not understood the staffing requirements for 24-hour operation – this had led to cover being inadequate and staff working constant overtime with related stress and absenteeism. An advisory committee ran the project, which was part of a larger charity. The sub-committee lacked executive authority over the project and the main charity's trustee body, which had overall responsibility, lacked the understanding of the staffing and other problems inherent in the way the project had been established. The CEO ended up the scapegoat.

Sometimes these problems arise because of lack of attention to board development but also there may be a power struggle at the interface between the board and the chief executive (Pettigrew &McNulty op.cit). As with private sector boards the relationship between the CEO and the board may constrain the board's ability to mobilize support and act. The director of a one case study organization clearly sought to avoid her board interacting with each other outside meetings, which she appeared to see as an inherent potential to challenge her authority (Cornforth and Edwards op.cit.).

This can lead to a situation where the board may be relatively isolated from the organisation and they will then rely heavily on staff and in particular the CEO to represent the organisation to them. This means that a board that lacks experience of and knowledge about the sector – 'industry wisdom' – may end up largely uncritical of what is reported to them. The 'approving board' in other words (Murray et al, 1992). Some CEOs seem to favour this board form as this can leave them free to manage the organisation without what they may view as interference. However, at times of crisis where the board may be all that stands between the organisation and oblivion it may be difficult for such 'weakened' boards to recognise the nature of the problem until too late. In effect this board is not in charge of the organisation. It is also unlikely in this situation that formal processes for supervising the CEO or ensuring that adequate management systems and procedures are in place.

In these circumstances the board is not encouraged to take a more active role in the organization. McNulty and Pettigrew (1999) argue that there is great variation in the extent to which boards are able to *shape* the content, context and conduct of strategy as opposed to formally *taking* strategic decisions. But failing to have a 'maximalist' board, one that is involved in and aware of the organization's strategy and problems renders the organization more likely to fail to survive a crisis.

Many boards find it hard to be strategic. In one board with a single staff member for many years the board was co-opted into volunteering to run events for the organization. There was no energy left to tackle the underlying problems that constrained resources. The board operated constantly in fire-fighting mode. In other boards particularly 'umbrella' or second tier organizations such as coalitions of nonprofits or partnerships, the loyalty of the board may be primarily to their nominating organization. In other instances friendship or community networks, for example in tenants' associations, may constrain board members from challenging the status quo.

Crises often arise in a context of government pressures for performance. Grants may be up for renewal or an evaluation of the organisation may be imminent by funding bodies. This renders the organisation very vulnerable particularly as Maddock (2002) charts serious failings in the government's approach to and understanding of change management. It is highly rationalistic, reliant on 'financial levers, restructuring and directives', with scape-goating and scare-mongering of managers rife. She argues that there is both a risk averse and a blame culture in operation and a lack of recognition that deep seated problems take time to resolve. This overly rationalistic approach to performance failure raises some complexities about the definitions of crisis.

Meanings of Crisis

Lorsch and McIver treat the notion of crisis in a normative fashion and as an objective 'fact'. An assumption permeates their discussions that crises arise and boards respond, albeit in differing ways to different types of crisis. But is it as simple as that? A number of issues arise. Firstly. There is a definitional problem. Crisis usually links in most people's minds to disaster and failure. But crises can be opportunities as well as threats. Cited in Borodicz and van Haperen (2002) , Sundelius (1998) argues that crisis is an 'opportunity for reform, innovation, exercising leadership and organizational and individual learning'. In other words one organization's disaster may be another's opportunity. For example the loss of the CEO may just what the organization needs to institute widespread changes and restructuring.

Secondly there are crises and crises. Different types of crisis raise different types of issues and the reason that problems, which are multitudinous in management, becomes crises usually flows from the context in which they arise. If the risk has been assessed by the organization and systems are in place to deal with it, then usually problems do not become major crises. The outcomes of crisis (and therefore the extent to which they are viewed as crises in the first place) are dependent on how those responsible for the organization react to the problems.

Thirdly there is a heavy emphasis on agency theory in this approach which places the board at the heart of governance. According to Pettigrew and McNulty (op.cit.), this approach assumes that boards monitor and control management to further the interests of the shareholders with whom it is assumed that boards identify. This will act to prevent management acting in a self-interested manner. However making the judgment that an organization is not performing well is not at all straightforward. 'Crises' are not objective facts as Lorsch and McIver imply, but are socially constructed, which focuses greater attention on the processes by which a shared understanding of crises develops, and how different stakeholders may try to construct 'crises' to mobilize support for action.

Meyer and Zucker (op.cit) 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 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, this results in 'permanently failing' organizations.

In his later work Meyer (op.cit) takes the argument further saying that performance itself is a problematic concept as it is not really amenable to measurement without measuring everything. As no manager or board has the time to do this, measures are selected which appear to indicate performance but this is specific to only some aspects of the organization's work. Thus the measures of performance selected by the board (or other stakeholders like funders or government) may make the organization ‘appear’ to fail but the selection of other measures might have constructed it as a success. In this fashion crises may be ‘created’ to achieve other purposes.

Nor are all organizations that deal badly with crises are deemed to fail. 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 someone is doing something about it. 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.

Boards (and managers generally) are essentially engaged in ‘sense-making’ of essentially problematic information or as Schön (1983) quoting Ackhoff says

‘managers are not confronted with problems that are independent of each other, but dynamic systems of changing problems that interact with each other. I call such situations ‘messes’. Problems are abstractions extracted from messes by analysis…. Managers do not solve problems, they manage messes.’ p15

Here what really matters is the ‘art’ of management. It is experience and professional expertise that will affect how the board ‘frames’ the problem. This clearly links with Harker and Sharma’s (op.cit) notion of ‘industry wisdom’. And moreover, because the problems are often not amenable to rational solutions (they are ‘swampy’ problems that are resolved by ‘trial, error, intuition and muddling through’) ‘selective inattention’ enables practitioners to cut the way the situation is defined to fit existing ‘scientific’ professional knowledge (and perhaps political agenda as well). And in the case of ‘gradual’ crises, it may be hard for board members to differentiate between those problems that involve normal error correction and those that signify the need for drastic action to avert organizational failure. This means that whether a problem becomes defined as a crisis requiring resolution is not a simple product of performance failure.

Defining a crisis, then, can be socially constructed and may used as a lever for changing the organization. Funders, for example, drove change in an organization, which had been moribund for several years and with the board failing to tackle the poor performance of the CEO, by threatening to cut off finances. After the removal of the CEO, the funding was restored and indeed grew substantially. Who says it is a crisis and who gets the blame are important issues to identify and it may be that crises are engineered to trigger change and create common cause and learning opportunities for the board and the organization. Boards that do not rise to this challenge such crises pose may contribute to the failure of the organization or their own removal. Success in managing crises must then depend on how the board and managers respond to the challenge posed.

The Dynamics of Crisis Management

Boards that deal with crisis successfully may go through a series of stages. Firstly the board must recognize that there is a problem to be addressed as we have discussed earlier as a constraint. Secondly there is phase where the board may need to build its capacity to deal with the problem and possibly identify one member prepared to take a leadership role. which we have called mobilization. There then follows a period of intense activity where the board resolves at least the most urgent issues. This is then frequently followed by 'burn out' where board members feeling that they have given the organization enough decide that they no longer wish to continue. Each of these phases may have some typical issues embedded in them.

As we indicated earlier the capacity of the board to recognize and respond to crises may be limited. Even where some on the board do recognize the underlying problems, getting the whole board to address it is difficult. Ryan (op.cit) offers the advice to funders not to try to go it alone and it is suggested that the same applies to trustees. It may be difficult for the lone critic to mobilize the board and they are more likely to end up ousted as a trouble-maker. All the board does not need to recognize the nature of the problems underlying the crisis, but probably the key influencers on the board do need to. For example a headteachers' trade union finds that dismissal of headteachers can occur in private schools without even all of the board being aware that there is a problem. The key players may meet for dinner and agree the sacking and it is completed by the time the board meets officially. (Private conversation with General Secretary)

Lorsch and McIver suggest that in order for boards to take on a more proactive role they have to break established norms that they do not openly criticize the CEO and expose failings and secondly norms they do not socialize with each other. They 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 forbids trustees being beneficiaries of the organization in the way that company directors are. 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 appear to be crucial factors. The building of social contacts and trust between board members is an important part of the process. In one case study a key factor in mobilizing the board was the introduction of telephone conferencing to overcome distance factors inhibiting more frequent board meetings that had often been ill-attended.

Once the problem is acknowledged the board has to decide whether it wishes to tackle it. Time is also a critical issue in the active phase where boards have to get involved in resolving problems. In a local development agency, there were 6 meetings over a period of 6 weeks as well as additional contacts between the office-bearers by telephone and e-mail to formulate a solution to the funding cuts and the general dissension in the organization. This level of commitment may cause particular problems in organizations where board involvement is voluntary, and various board members may resign from the organization at this stage being unwilling to give their time to conflict resolution. Slatter and Lovett (op.cit) 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 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 need to manage relationships with all the key stakeholders. If the board is managing this crisis without a CEO as well, it is small wonder that many of these volunteers decide that this not something they wish to tackle.

Finally another critical phase for non-profit boards is often when the organization is on the road to recovery. It appears to be at this stage 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 nor a sense of what it has gone through and the process of board development will have to start again.

Research Questions

So how to research this topic? Crises that arise from unanticipated problems or ones that are so serious that they threaten the continuing existence of the organization when stakeholders wish it to continue in existence are we suggest, the really interesting issues here. A key issue for boards managing the crisis is whether the nature of the crisis results in a loss of faith in the capacity of the CEO to resolve the problem. We suggest that boards tackling crises without the CEO are very different to those that tackle the crisis with them.

The research questions seem to be the following. How do boards become aware of crises? Are all types of crises the same? How are boards able to mobilize their formal powers? What are the constraints on boards taking action? Do the same issues arise as in commercial organizations or do nonprofit organizational crises take different forms or present in subtly different ways? What are the circumstances in which boards decide to take action and shift from an advisory role to a decisional one? What is the process through which boards and trustees go in order to become effective change agents? What can we learn from boards that fail to address crises?

Devising ways of exploring this will not be easy. People may be unwilling to talk or try to cover up. Previous research experience indicates that recall usually associates the respondent with success and that failure is either forgotten or attributed elsewhere (Mordaunt 1992). People like to create positive images of themselves.

It is planned to undertake a small number of anonymous case studies that seek to identify some common issues and themes. These will be complemented with focus group discussions with sector consultants and funders (particularly independent grantmakers) who will be asked to make observations on the trends identified. The experience of staff in organisations like the chief officers' associations or trade unions or tracking major scandals in the press and seeking insider confirmation of the issues, may be ways forward. With the development of electronic databases of the press, it may also possible to track the history of the more prominent 'crises' like the Royal Opera House and possibly check this with those actually involved.

This research will contribute to theoretical development about how non-profit boards handle crises, which will add to understanding of the complex inter-play between boards, their skill set, CEOs, the organization, its context and the particular situations boards face. The research will also help open up an important but under-developed area for research by developing new propositions.

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