Nonprofit and Voluntary Sector Quarterly
41(1) 82–99
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DOI: 10.1177/0899764011398296
http://nvsq.sagepub.com

Board/Staff Relationships in a Growth Crisis: Implications for Nonprofit Governance

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Abstract

This longitudinal study of four not-for-profit organizations in the cultural sector examines the evolving relationship between boards and staff. Financial problems occurred as a result of enlarged physical facilities or increased programming. The study provides insights on how the behavior of boards and their relationships with executive leadership change during the phases of a crisis. The authors relate their findings to those of other governance studies on crises and alternative theories of governance. New insights on variations of trust and distrust may serve to explain the dynamics of change. This study contributes to the discussion of governance in the context of organizational crises in the not-for-profit sector.

Keywords

governance, crisis, relationship, trust

Introduction

Organizational crises raise questions about responsibility for the governance of an organization. Traditionally, agency theory suggests that ultimate responsibility for an organization rests with its board of directors. The board monitors the executive leadership to ensure that organizational interests are considered in strategy development, especially when risk decisions are made (Jensen & Meckling, 1976).

Research indicates that not-for-profit boards might find this monitoring role demanding, as their members are volunteers, generally from outside the sector (Middleton, 1987;

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Ostrower & Stone, 2006), and as a result may have difficulty assessing risks. CEOs appear to take the lead in policy development, planning, and strategic planning (Middleton, 1987; Miller, 2002; Stone & Ostrower, 2007). Not-for-profit boards seem to trust their CEOs to influence and lead (Herman & Heimovics, 1991, 1994; Miller, 2000). This approach contrasts with the distrustful perspective of agency theory. In the not-for-profit sector, a difference between theory and practice of governance arises, resulting in questions about the relationship between board and staff.

Recently, theorists have suggested that other explanations present board roles that are different from the traditional monitoring ones (Cornforth, 2004; Sundamurthy & Lewis, 2003). These explanations appear to be paradoxical. They suggest resource dependence (Pfeffer & Salancik, 1978), stakeholder theory (Freeman & Edward, 1994), stewardship (Davis, Schoorman, & Donaldson, 1997), and managerial hegemony (Lorsch & McIvor, 1989) as possible lenses. These theories also imply variations of trust and distrust in board/staff relationships.

This study examines phases in board/staff relationships throughout a growth crisis in four small not-for-profit cultural organizations. Governance practices changed as the relationships progressed through different phases. Growth crises are of research interest because in an organization that is ostensibly doing well, a crisis situation raises questions about appropriate monitoring and risk assessment by the board and management and disrupts the traditional board/staff relationship. Trust becomes distrust and concerns about control gradually emerge. The research questions for this study were the following:

Research Question 1: How do board members and staff interact in a growth crisis over time?

Research Question 2: How do governance behaviors change in this evolving context?

Access to the cases began with consultancies commissioned by funding agencies when supplementary funds were requested by the case organizations. The funding agencies later partnered with the researchers in a community-academic research project studying governance during financial crises in not-for-profit arts organizations. The relationship with the four clients led to further consultation, which also produced data for academic research.

Literature Review

Here, we present a synthesis of the literature on board/staff relationships and their governance implications in the not-for-profit sector, with special application to crises.

Agency theory describes how boards counterbalance CEOs' potentially self-interested behavior to ensure organizational and financial well-being (Fama, 1980; Fama & Jensen, 1983; Jensen & Meckling, 1976). This approach to governance reflects distrustful board/staff relationships, emphasizes board control, and appears most applicable to the for-profit sector, where relationships are financially framed (Miller, 2002).

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Board monitoring of executive staff requires knowledge of business models within the field. For-profit board members are often executives in the particular field, paid for their expertise. Not-for-profit board members are volunteers, unpaid and avocational, often chosen more for their boundary-spanning abilities than for their professional knowledge of the field. In this sector, lack of expertise in the organization's field of business makes board monitoring difficult (Cornforth, 1999; Ostrower & Stone, 2006).

Evaluation criteria in the sector are ambiguous and subjective (DiMaggio, 2001; Herman & Renz, 1999; Lampel, Lant, & Shamsie, 2000), making risk assessment and decision making challenging. Given this context, agency-type monitoring may be impossible (Alexander & Weiner, 1998; Miller-Millesen, 2003). Board members appear to develop trust in CEOs' knowledge and judgment (Miller, 2000), generating CEO influence over the board. Several scholars describe preeminent leadership of the board by the CEO (Golensky, 1993; Miller-Millesen, 2003). Herman and Heimovics (1991, 1994) refer to this phenomenon as *board-centered* leadership. These observations might lead agency theorists to raise concerns about the risks involved in board trust in the CEO and CEO power.

In attempting to respond to the agency challenge, scholars have identified various types of board/staff relationships, suggesting a contingency approach (Alexander, Fennell, & Halpern, 1993; Bradshaw, 2002; Golensky, 1993). Cornforth (1999) provides a more complex description whereby the board's power over staff is affected by both internal and external factors and is dynamic and changing. However, Ostrower and Stone (2006) observe that most board research is cross-sectional, thus limiting longitudinal insights.

In early research on crises, Wood (1992) discovered that board/staff relationships varied throughout an organization's development and thus over time. Once founded, an organization evolves through three phases: supermanaging (the board is heavily involved in the mission and seeks views that are alternative to those of staff), corporate (the board is concerned more with rules and process than with the mission), and ratifying (the executive leader becomes the organization's identity and the board is passive). This three-stage process leads to a crisis situation, after which the organization recycles back, inevitably to return to crisis. Wood found that board/staff relationships change throughout the process, as the board begins enthusiastically and then becomes fatigued, leaving room for executive staff to gain power. Boards become passive with distance from the mission and with increasing executive power. Wood's study was not longitudinal but retrospective, using extensive interview data.

More recently, in exploratory research, Mordaunt and Cornforth (2004) observe four phases surrounding a crisis. These authors focus on interrelational board dynamics to shed light on the role that boards play in a crisis. They point out that scholars have identified internal and external causes as well as both immediate and long-term processes related to crises. Similar to Cornforth (1999), they suggest that these categorizations are too simple and observe that the causes and processes around crises are complex. They conclude that boards do play an important role in crisis management and suggest four phases to this behavior: recognition and denial (a process of acknowledging that there is a crisis), mobilization (consensus for action is developed), action (short-term

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issues are under control and decisions for medium- and long-term issues are needed), and transition (consolidation occurs). Mordaunt and Cornforth (2004) suggest some behavioral logic for phase changes but their emphasis is on board roles and behavior. Their insights are drawn from retrospective comments in a focus group and in-depth interviews producing case descriptions.

Scholars have suggested that paradox is a useful means of explaining confusing dilemmas encountered in organizational behavior (Fiol, 2002; Lewis, 2000; Mitroff, 1995). Governance scholars have used this lens to understand board communication and behavior (Block, 1998) and how board/staff relationships might function (Cornforth, 2004; Sundamurthy & Lewis, 2003). In an attempt to move beyond the agency theory understanding of board roles, Cornforth (2004) and Sundamurthy and Lewis (2003) suggest that management theories considered together may help to produce insight on how boards could combine roles.

Resource dependence dynamics influence the behavior of not-for-profits (Gronbjerg, 1993; Herman & Renz, 2003) and the roles that their boards adopt to ensure effectiveness (Brown, 2007). Stakeholder theory assumes that an environment of interested parties commands board attention on behalf of the staff (Freeman & Edward, 1994). According to these two perspectives, board members contribute to organizational survival through advocacy, fundraising, and boundary negotiation. These various forms of board participation expand the board function beyond the internally focused and distrustful agency approach by fostering a trusting and collaborative board/staff relationship.

Stewardship theory considers how the board partners with the CEO and other senior staff, supporting and assisting them in their professional managerial responsibility to serve the organization rather than themselves (Davis et al., 1997; Donaldson & Davis, 1991). This approach also implies a spirit of trust and collaboration. Finally, with the managerial hegemony approach, the board symbolically supports the executive leadership, which suggests a very high level of trust leading to “rubber-stamping” of management strategies (Lorsch & McIvor, 1989).

In exploring the paradox, we found that these management theories, when applied to boards, reflect a climate of either trust and collaboration or distrust and control with respect to board/staff relationships. Applying these theories to boards in crisis situations might generate new insights into how various forms of governance function over time.

In the following discussion, we describe the methods used in the study. We then present the research context and the case studies, followed by the findings.

Method

This study originated in a consulting commission from government agencies to examine four not-for-profit organizations that had requested special funding to resolve crisis-related financial problems. This initial phase of analysis was followed by a long-term consulting relationship to assist the organizations during recovery. The second author observed meetings of follow-up committees or continued with informal consulting support. The longer term consulting relationship was facilitated by a research project

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Table 1. Consulting and Research Activity Over Time

Year	Formal relationships	Process of inquiry
2003-2004	Consulting partnership requested by Quebec Ministry of Culture (attracted by the researcher's accounting expertise)	Diagnostic report prepared for Cases 1 and 2 Consulting relationships begun with Cases 1 and 2
2005	Grant request submitted to federal funding body for study of not-for-profit arts organizations in crisis	Consulting relationships continued with Cases 1 and 2 Diagnostic report prepared for Cases 3 and 4
2006	Grant request accepted; funds committed for 5-year community-university research affiliation (CURA): "Financial Crises in the Cultural Sector: Plan Ahead, Don't React" Ongoing research and advisory relationship negotiated with Quebec ministry of culture to enhance partnership with CURA	Consulting relationships ongoing for all four cases Deeper exploration of governance literature in the for-profit and not-for-profit sectors Recognition of possible theoretical contributions in the data collected through consulting relationships
2007-2011	Funding for CURA to end in 2011 but further funding being sought to continue the project	Informal consulting relationships continue in two cases and formal membership on advisory committees has been established in two cases Ongoing access to confidential documents and financial information in all four cases Research papers written

carried out in partnership with the not-for-profit cultural community on issues of governance. Permission was obtained to use the data for research. The other author joined the study early in the research project. Table 1 summarizes the phases of the project.

Consultation with these organizations began with an exploration of the crisis as identified by organizational members. The relationship provided access to evolving confidential data, which generated exceptional research sites. Research on boards in crisis tends to be sensitive and therefore difficult to access. It is rare to find longitudinal studies of boards (Mordaunt & Cornforth, 2004). Each site has been defined as a case (Eisenhardt, 1989; Eisenhardt & Graebner, 2007).

Data Collection

Access to the cases did not begin concurrently, but use of the same questionnaire ensured consistent collection of the data.[1] This questionnaire helped to structure both the data

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collection and the consulting reports. Some data were provided retroactively but most were current at the time of collection. There were three data sources: organizational documents (grant applications, audited reports, strategic plans, and task descriptions); open-ended and focused interviews (40 across all cases); and participation in meetings (34 across all cases). The data were initially collected for developing reports sent to both the government and the organizations in question.

The interviews probed possible trigger events and processes related to the crises. They were not recorded on tape due to the sensitive circumstances, but two researchers attended and took independent notes, ensuring data corroboration (Yin, 2003). By also participating in board meetings, the researchers were able to observe the board and staff together as the crisis unfolded, thus gaining direct insight into the dynamics of the board/staff relationship.

Data Analysis

The data-collection framework provided a deductive structure within which to write the consultant reports. This structure also enabled comparative analysis across the four cases (Eisenhardt, 1989; Eisenhardt & Graebner, 2007). Further analysis of the tabulated comparative case data and consultant reports took place in discussions between the two authors as theoretical understanding of the dynamics was arrived at inductively and deductively (Denis, Lamothe, & Langley, 2001). Unlike in action research, the consultations were not intended as experimental research.

All consultant reports were shared with the client organizations as well as the government agency that had commissioned them. The reports generated reflective responses, conversations, and, ultimately, approval for action within the organizations. An ongoing relationship with these organizations and the practitioner community through a community-academic research project allows the consulting author to continue the conversations and gain insights that confirm the findings.

Research Context

The study examined four small- and medium-sized organizations that had undertaken financially risky growth decisions entailing new or additional physical facilities or entailing evolved programming, all in response to growing reputations. The executive leadership and board were concerned with the growth of the "art" side of the paradox (as opposed to the "business" side), which is typical of cultural organizations (Lampel et al., 2000). Thus, organizational growth was internally motivated but externally supported.

Three levels of government funded operating functions and later, in two cases, infrastructure expansion. Private-sector funding was rarely possible because these organizations were situated in very small centers and in a culture without a fundraising tradition, and thus had limited financing options, especially at the point of crisis. All four organizations responded to their crisis by making requests to government for increased operating funding to support their growth, but without success.

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In terms of accountability, funding agencies require annual audited financial statements and require that grant applications be approved and signed by the board chair. As not-for-profits incorporated in Quebec, all four organizations were required to hold an annual general meeting for the membership to approve audited statements and elect board members. In three of the cases, however, membership was defined as the board members only, which is common among small- and medium-sized arts organizations. Government agencies were not represented on the board. As financial accounting requirements, such as audited statements that include cash-flow status at year's end, provide information retroactively, the board was unable to anticipate financial problems unless informed unofficially by staff. Banks and suppliers were the whistle-blowers as they were the best informed regarding immediate cash-flow concerns. Governments prolonged the financial crisis by refusing special funding. Both the whistle-blowers and government were contributors to the crisis and were external to the organization.

Case Studies

The four cases were two museums and two performing arts companies. The main features of the organizations are summarized in Table 2. Four issues were consistent across all cases: artistic quality and reputation, financial management, the CEO's management style, and the engagement of the board (see Appendix A available online at http://nvs.sagepub.com/supplemental).

Regional Museum 1 held a nationally important historical collection preserved through investments in physical facilities by two levels of government. The museum faced a deficit and cash-flow issues resulting from increased operating costs and new buildings not fully completed. When it became apparent that new government operating funding would not be immediately available, a private creditor close to the museum called a loan. Although administrative control of expenses was well maintained, administrative resources limited the CEO's ability to provide a strategic financial portrait for the board. As well, the organization was unable to develop programs at a level necessary to justify upgrading to major museum status and thus eligibility for increased funding. Relationships between board and staff were collaborative and casual, but roles were easily blurred as board members also worked as museum volunteers. Relationships between board and CEO were exceptionally trusting and close until the crisis occurred. The CEO remains, having been recognized for tenacity throughout a difficult project, but the chair left and new board members have altered the volunteer dynamic of the organization. Federal and provincial funding agencies differ over responsibility for the museum's additional operational funding, resulting in ongoing financial problems.

Regional Museum 2 was run by an entrepreneurial CEO under whose management more than 20 new projects, both within the museum and in the local community, were a tourist draw. Making use of an excellent artistic reputation resulting from the collection, and in association with well-known artists from the region, the CEO increased the pace of activities. However, financial reporting did not keep pace with the development of new exhibitions, so the production of relevant information, in turn, did not keep pace with the organization's need to know. Financial resources were focused on programming growth rather than on administrative support. A write-off of 3 years'

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Table 2. Characteristics of the Four Organizations Studied

Characteristics	Case 1	Case 2	Case 3	Case 4
Type of artistic activities	Museum	Museum	Performing arts company	Performing arts company
Number of employees	12 full-time; 10 part-time	5 full-time; 51 part-time and contract	24 full-time; 34 part-time; 25± contract	16 full-time; 3 part-time; 6 contract
Public and private sources of funding (%)	Government: 63.2; Earned income and sponsorships: 36.8	Government: 66.7; Earned income and sponsorships: 33.3	Government: 33.5; Earned income and sponsorships: 66.5	Government: 19; Earned income and sponsorships: 81
Description of the board at beginning of consultation	Internal/external members: 1/6; Executive committee: no; CEO right to vote: no; Nomination criteria: personal regional connections and interest in the mandate; Corporate membership: board members only	Internal/external members: 2/7; Executive committee: no; CEO right to vote: no; Nomination criteria: personal regional connections and interest in the mandate; Corporate membership: benefit of annual paid membership	Internal/external members: 1/11; Executive committee: yes; CEO right to vote: no; Nomination criteria: personal regional connections and interest in the mandate; Corporate membership: board members only	Internal/external members*: 3/0; Executive committee: no; CEO right to vote: yes* (founders = CEO, COO, and art director); Nomination criteria: internal staff; Corporate membership: board members only
Reason for growth	Expansion of facilities for preservation of collection	Increasing number of projects; growing reputation	Increasing number of projects; enhanced reputation	Success abroad (more touring) and expansion of facilities (building)
Consulting relationship	Began in spring 2003; Continues: yes (informal and occasional)	Began in fall 2004; Continues: yes (informal and occasional)	Began in spring 2006; Continues: yes (advisory committee to board and government funders)	Began in summer 2006; Continues: yes (advisory committee to board and government funders)
Budget (revenue)	C$1,011,500	C$1,472,000	C$2,600,000	C$3,986,000
Deficit as % of budget	58 (US$597,000); Private loan of US$500,000; Negative cash flow	68 (US$1,000,000); Realized deferred expenses; Negative cash flow	41 (US$1,075,000); Negative cash flow	8 (US$326,000); Private credit of US$1,000,000; Negative cash flow
Immediate crisis	Private creditor called loan	Supplier brought case to court	Banks froze line of credit	Private creditors called loans

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deferred expenses had resulted in a large annual deficit. The CEO failed to provide the board with details of the museum's operations, presenting only reports on its accomplishments as found in newspaper articles and on the reactions of influential visitors. The CEO was very confident about his control of the board. He referred to "my board," "my executive committee," and, in particular, "my president," reflecting a passive culture and a trusting attitude among board members. The immediate crisis was triggered by a legal proceeding, initiated by suppliers whose accounts had been in arrears for more than a year. As a result of the crisis, a new CEO was hired. The museum has been sustained by new programming and improved financial reporting, but its financial status remains fragile.

Performing Arts 1 suffered from similar issues to Museum 2. The CEO of this highly respected organization was ambitious about broadening its range of activities to attract more patrons. Although there was audience growth, expenses grew more rapidly than revenues. Activities evolved with limited financial record keeping and control. The board was not able to monitor developments closely but seemed willing to remain passive and trusting to avoid conflict. Initially, Performing Arts 1 was unlike Museum 2 because its executive committee was functioning for the board as the CEO's governing partner. However, similar to Museum 2, its CEO had tight control over the board president and executive committee members, the treasurer was frequently absent, and the board was given limited financial information. The bank sounded the alarm by refusing to increase credit margins, thus creating a liquidity crisis. A new CEO has come and gone, new board members have been recruited to enhance influence and fundraising, and an advisory committee provides external insights for both the board and government funders.

Performing Arts 2 had received international recognition beyond expectations soon after its founding. The creative side needed increasingly large investments to support its rapidly expanding reputation and international touring program as well as its new government-funded facilities. Resources directed to the administrative side were limited as energy was focused on artistic development. Budgets were rough projections that underestimated expenses, and financial transfers across international borders were difficult to track. Board members were also the executive staff, with no external board members. As a result, the CEO was able to control information and the desire to expand the organization went unchallenged. Private creditors provided extensive financing for growth, but their call for repayment, along with the bank's refusal to increase credit margins, caused a crisis.

In the following section, we use the data to report our observations of phases.

Findings

In this study, we undertake an examination of board and executive staff relationships during a growth crisis in not-for-profit arts organizations. We identify three phases in each of four cases. A comparison with the findings of Wood (1992) and Mordaunt and Cornforth (2004), who also studied crises, indicates parallels and differences in the phasing, as illustrated in Appendix B available online at http://nvs.sagepub.com/supplemental.

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Wood (1992) identifies three phases, apart from the crisis, which is not identified as a phase, and a change in board–executive relationships with each phase. Our findings most resemble those of Wood, as board/staff relationships are evident, despite Wood's intention to look at board behavior only. However, we saw no evidence of the "corporate" phase and we found behavior that was distinct and related to the crisis.

Mordaunt and Cornforth (2004) focus on the definitions of crises and their external or internal causes, observing four stages of board process involving board member recognition of the crisis and action taken to solve it. They were interested in the role played by boards in a crisis. Because our study focuses on board/staff relationships, we define phases differently from Mordaunt and Cornforth, despite our similar conclusions regarding certain board dynamics. The three phases are described below, followed by observed linkages with the governance literature.

Before the storm. In this phase, highly trusting and "rubber-stamp" governance behavior by boards predominated, with significant psychological power residing in the executive leadership. The excessive trust in the leadership disengaged the board from an active, collaborative, and more informed partnership with staff. This phase appears similar to Wood's (1992) "ratifying" phase. However, in Wood's data, board members demonstrated little interest in the mission in this phase of her study. In our four cases, the organization's artistic successes were at the forefront of everyone's awareness. The organization was recognized by the community, the public, and funders for its work at home and abroad, providing stimulation for the board and producing a halo effect that included a high degree of trust in the CEO. Although operating costs were allowed to rise significantly to support the increased artistic quality and production activity, they were not matched by private funds or other means of public funding. All of these internal factors underlay the impending crisis (Mordaunt & Cornforth, 2004).

In each case, risk assessment of the organizational expansion scenarios was limited. Underresourcing or neglect of administrative functions resulted in poor alignment of financial planning and tracking of artistic growth and ambitions. Often, projections were overly optimistic. In two cases, the board made no firm requests for financial information because board members accepted deferral from one meeting to the next. In each case, the crisis was triggered by the sensitivity of external stakeholders, such as private creditors, banks, and suppliers, to cash-flow and sustainability issues.

A managerial hegemony understanding of governance (Lorsch & McIvor, 1989) may be the best way to describe the governance behavior at this stage. Executives appear to have been given full rein to undertake projects without having to account financially for their decisions. Only positive press reports and accounts of visiting VIPs were provided to boards as information about the organization. The CEOs were artistically charismatic and attractive, and the artistic success of the organizations was highly lauded.

Private fundraising was not a tradition in the region where the study took place. Because of the excellent reputations of the organizations, however, basic operational government funding was easily obtained early in the life of the organization. As a result, boards apparently lacked a boundary-spanning orientation as well as information about issues relevant to other financial stakeholders. In this phase, resource

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dependence and stakeholder theory have little application in governance dynamics (Pfeffer & Salancik, 1978).

The crisis trigger. Suppliers, private creditors, and banks precipitated the crisis through legal action, demands for repayment of loans, and limits placed on credit, reflecting an external trigger to the crisis (Mordaunt & Cornforth, 2004). Passive board behavior during the earlier risk-assessment period may have influenced the decision by government agencies to refuse increased operational funding to support expanded activities and emergency funding to support short-term sustainability.

Board members altered their engagement with the organization and assumed control. The power relationship between the board and the CEO shifted in response to the threat to survival. CEOs lost decisional power and board members became preoccupied with financial procedures and efficiency. Boards entered directly into negotiations with external stakeholders, bypassing the executive leadership. They sought temporary extensions with suppliers, additional credit from banks and private creditors, and grants from funders.

The board's position of confidence and trust in the CEO was transformed into one of distrust. The CEO's decisions and actions were challenged. In two cases, the CEO was removed. In three cases, the board chair resigned. In one case, the CEO remained after some serious questioning about competence at the time of the crisis. In the fourth case, the government stipulated that external members had to be added to the board, to increase monitoring capability.

The activities during this phase align with an agency perspective, reflecting an emphasis on control by the board and a fundamentally distrustful attitude. Furthermore, the extensive interactions with the government at this stage reflect resource dependence and the newly developed relationships with the banks and suppliers reflect stakeholder theory. These changes entailed a sudden shift in behavior for board members, from a passive stance in the earlier stage to very engaged and active involvement. This state of affairs apparently resulted in board departures, in contrast with the Mordaunt and Cornforth (2004) study, where departures occurred in a later phase.

Continued survival. Once the organizations were stabilized after the immediate shock of the crisis, the boards appeared to move into collaborative but wary relationships with new players. These relationships were defined by a mixture of trust and distrust, similar to the "super-managing" phase described by Wood (1992). In all four cases, the organization made adjustments to function within the constrained circumstances.

The boards seemed to have difficulty maintaining a preeminent and controlling position within the organization and within the external environment. In the new organizational context, with the same or new players in the chair and CEO roles, distrust diminished and trust grew as relationships developed. Craving efficiency, both the board and the CEO sought to establish a more mature and collaborative relationship. Power appeared to be shared more equitably, with an expectation of checks and balances. Transparency became valued.

In two of the organizations, advisory committees were formed to provide the board with informed external stakeholder perspectives and assistance with its monitoring

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responsibilities. One of the authors sits on these committees and also maintains an informal advisory relationship with the other two organizations.

The shift to a collaborative relationship reflects a stewardship approach (Davis et al., 1997) with, when needed, continued resource dependence (Pfeffer & Salancik, 1978). The crisis appears to remain within memory, however, so an agency perspective continues to shadow the relationship, tempered by a stewardship approach.

In the next section, the management of crises in the sector is explored in relation to previous work on the topic. As well, a further theoretical reading of governance behavior is discussed.

Discussion

This study set out to better understand changes in board/staff relationships and the resulting governance behavior in the context of growth crises. A number of theoretical implications of the findings have emerged.

Being longitudinal and focused on medium-sized organizations, our study is unusual in the context of governance research (Ostrower & Stone, 2006). This particular approach has enabled us to show that board/staff relationships vary according to phases within an organization, demonstrating that board behavior is not contingent on organizational type only.

We have also found evidence of variations in governance behavior over time, which may be explained by alternative theories across and within the phases of a crisis, particularly the final phase observed in this study (Cornforth, 2004; Sundamurthy & Lewis, 2003). This understanding distances the study of governance from an exclusive relationship with agency theory (Miller, 2002).

The phases we have described both contrast with and correspond to those observed by Wood (1992) and by Mordaunt and Cornforth (2004). We have identified only three phases, compared with the four or five reported by these authors (see Appendix B). Our phases are linked closely with observed changes in the board/staff relationship, as suggested in the purpose of our study, and appear to have some resonance with the structure developed by Wood. Also, resonating with the conclusions of Mordaunt and Cornforth (2004) and with those of Cornforth (1999), the dynamics are complex. Both internal and external factors played a role. For some time before the crisis, internal factors such as lack of financial expertise and lack of sufficient information latently preceded the eventual whistle-blowing by external stakeholders. In addition, in all four cases, government funders subsequently aggravated the problem and the ongoing vulnerability of the organization.

Although our study provides a thorough understanding of each phase, we remain unconvinced of the causes for change from one phase to the next as described in previous research. Wood (1992) suggests that such change is linked to the power of the executive leadership and the board's proximity to the mission. However, in our study, the mission was always very attractive to board members, and while the CEO was powerful—as also described by Wood—the sudden and radical change in the relationship

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was puzzling to us. In Mordaunt and Cornforth (2004), the transition from one phase to the next was linked to team dynamics and leadership within the board. In our study, the focus was the relative roles of board and staff.

Trust versus distrust and collaboration versus control dynamics underlay all governance relationships, aligning with the various governance theories found in each phase of our research. We made note of how these factors evolved as we developed our descriptions of both the cases and the phases. However, in the not-for-profit governance literature, using trust and distrust in board/staff relationships, we found little research to explain the dynamics. We therefore sought answers outside this literature and found insights in the literature on trust and collaboration dynamics in the context of interorganizational relationships in the for-profit sector—another context that involves governance (Vlaar, Van den Bosch, & Volberda, 2007).

The interorganizational literature contrasts the controlling role of formal contracts with collaborative relationships (Das & Teng, 1998; Madhok, 1995). The separate emotions of trust and distrust underpin these contrasting states. Vlaar et al. (2007) undertook a qualitative meta-analysis of this literature, producing propositions describing the factors in the relationships that influence the performance of the joint venture. We found compelling evidence of a connection between these propositions and changes of phases in our study.

In the first phase, board members were passive and placed a high degree of trust in the staff. Banks and other creditors and suppliers blew the whistle, precipitating a crisis. Governments contributed to the situation by refusing to provide additional funding. In the second phase, the boards reacted, adopting distrustful and controlling behavior and changing both board and executive leadership and governance structures. In the third phase, the relationship changed again, becoming more collaborative and featuring a mixture of trust and distrust.

Scholars of interorganizational relationships (Vlaar et al., 2007) explain that situations featuring a very high degree of trust, no distrust, and no contract involve a high degree of risk. Such situations will inevitably be met by very high levels of distrust: "Even trustworthy partners can be relied on to be untrustworthy if the incentives are large enough . . . under certain conditions, trust can be harmful, as it encourages actors to suspend judgment of others" (p. 416); "If trust is not accompanied by certain degrees of healthy suspicion or formal controls, an organization risks being cheated or missing out on major opportunities" (p. 417).

In our cases, the boards did not receive effective financial information. In addition, the lack of administrative resources served to reduce the ability to report financial information effectively. However, growing international reputations enhanced the executives' "halos," enabling them to hide pertinent financial information. The excitement of success was communicated to the board members, who apparently were starstruck by or extremely grateful to the CEOs for the organization's achievements. It was difficult for individual board members to go against the prevailing mindset.

Using expectancy disconfirmation theory (Oliver, Balakrishnan, & Barry, 1994), scholars in the joint venture literature further explain that with declining and negative

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performance in relation to expectations, the partner loses all trust and takes control to rectify the situation: "The urge to act, or feeling that something has to be done, may translate itself into a heightened level of formal coordination and control" (Vlaar et al., 2007, p. 418 citing Sitken & Bief, 1993).

Performance declined as a result of whistle-blowing by banks and suppliers, alerting the board to take action. The organization's true financial state was revealed—or became imperiled. Government contributed to the state of crisis. The board reacted, replicating the behavior described in the joint venture literature.

However, the new state of hypercontrol and distrust was not sustainable. Balance is needed to sustain a relationship in the long term. An exclusive state of distrust creates uncertainty, "causing managers to continually question the motives and competences of their partners" (Vlaar et al., 2007, p. 414 citing Das & Teng, 1998 and McEvily, Perrone, & Zaheer, 2003). The relationship is inefficient and the partnership deteriorates.

In our study, the board achieved balance in an improved but still somewhat distrustful relationship, with new leadership, governance structures, and external advisory committees. All of these changes enabled the organization to manage its constrained financial situation more knowledgably and collaboratively and thus to avert further crisis.

The concept of trust and distrust provides for a nuanced understanding of the kinetic nature of board/staff relationships from one phase to the next. Insights from this theoretical link may also serve to counter the inevitability of crises, as suggested by Wood (1992). If armed with a deeper understanding of the emotions that dominate various phases of a crisis, boards and their collaborators may be better able to anticipate the pitfalls of passive behavior.

Trust and distrust are important emotions in a governance relationship. Our study provides evidence that the two emotions can paradoxically coexist in a relationship and can ensure a checks-and-balances style of governance. This evidence also extends the idea of paradoxical combinations of governance theories (Block, 1998; Cornforth, 2004; Sundamurthy & Lewis, 2003), as those theories are underpinned by the link created through trust and distrust.

Implications for Management

Awareness of the dynamics of trust and distrust between boards and their CEOs as well as the various theoretical lenses through which to view governance behavior can result in a richer and more flexible understanding of how governance functions in an organization, possibly leading to more effective and engaged governance by the board. The knowledge that a mixture of trust and distrust is possible in a mature relationship can help to keep parties from digressing into a passive type of board/staff relationship and perhaps prevent a crisis. Crises are paralytic and disruptive to organizational relationships and are best avoided.

Prior research has found that governance is more effective when boards follow certain generally accepted monitoring practices (Brown, 2007; Herman & Renz, 2000).

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These practices may be related to the custom of contracting as understood in the literature on interorganizational relationships. They may prevent the development of excessively trusting situations, as found in the early phase of our study cases. A balance of trust and distrust, while not suggested in that research, may well underpin the value of these generally accepted practices.

Limitations and Future Research

Our study was undertaken in cultural organizations, which might suggest prestigious board members and attractive, charismatic leaders and therefore unique governance dynamics. However, Wood's (1992) study of agencies serving at-risk youths resonates with our work, indicating the possibility of similar effects elsewhere.

Data collection for the study involved multiple sources and was undertaken over time—a unique and distinguishing aspect of this analysis. Although the organizational relationship was predominantly consultative, this enabled access to rich research sites. A structured approach to data collection and analysis allowed for comparison across cases and also served to ensure rigor.

Finally, aside from Wood's (1992) somewhat simple relationship between strong leadership and passive boards, the theoretical insights from this study provide limited explanations of how boards became and remained passive. Board members were intelligent and were solid members of their community, who appeared to be neither Machiavellian nor lazy. Perhaps, more research on group psychological processes might further scholars' sense of governance behavior. The psychodynamic literature on group relationships could provide insight.

Conclusion

This study of four cases in a growth crisis provides understanding of the changing nature of board/staff relationships that affect governance of not-for-profit organizations. Phasing from CEO preeminence and dominance to board-led control and collaboration in a paradoxical trust–distrust relationship was a dynamic that produced information about several theoretical concepts. First, no one type of board/staff relationship endured, reflecting a dynamic and complex relationship entailing internal and external factors that were latently long-term or sudden and overt when generating the crisis, further supporting the conclusions of Cornforth (1999) and Mordaunt and Cornforth (2004). Second, theories explaining board behavior can apply in both a paradoxical and a dynamic manner. Evidence invoking theories of agency, resource dependence, stakeholder theory, stewardship, and managerial hegemony was found in all cases at some point, and sometimes together. Finally, the underlying dynamics of trust/distrust and control/collaboration appear to explain change from one stage to another in these crisis scenarios, providing some understanding of how boards and managers might consider developing their relationships so as to better control the disruptive effects of a crisis.

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Authors' Note

This research project was undertaken beginning in 2005 for 5 years at HEC Montréal within a Communities and Universities Research Affiliation grant from the Social Sciences and Humanities Research Council of Canada titled "Groupe de recherche sur les organismes à but non lucratif, communautaires ou culturels: prévenir plutôt que guérir" (Research Group on Financial Crises in the Nonprofit Arts Sector: Plan Ahead, Don't React). Christine Harel collaborated on the research as the coordinator of this community research alliance.

Declaration of Conflicting Interests

The authors declared no potential conflicts of interest with respect to the authorship and/or publication of this article.

Funding

The authors received no financial support for the research and/or authorship of this article.

Note

1. For interested readers, the questionnaire used in our data collection may be obtained directly from Johanne Turbide, HEC Montréal, 3000, chemin de la Côte-Sainte-Catherine, Montréal, QC H3T 2A7, Canada. Email: johanne.turbide@hec.ca

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