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THE CHIEF EXECUTIVE & THE FOUNDATION BOARD – STRATEGIES FOR SUCCESS

CHIEF EXECUTIVE IMPERATIVES: THE BOARD'S ROLE IN CRISIS MANAGEMENT

My thoughts for this presentation are certainly heavily shaped by the experience of losing over-night the source of 85% of the annual income of the foundation for which I worked – which was the immediate impact of the collapse of the financial services company, Barings, on the Baring Foundation, of which I was then the CEO.

It seems to me, however, that Foundation can get caught up in a range of different crises not just those that result from a sudden decline in the resources it needs to deliver its charitable mission. I suppose a crisis would usually be defined as a result of a sudden event, whether one that is internally generated or externally caused, a specific time of danger or instability, a crucial turning point.

I reckon there is an additional sort of 'crisis' – one that is provoked by perceptions. And, when preparing this talk, I was relieved to find that I was not alone in this opinion – one of the standard definitions of crisis was "perceptions that threaten the operations, staff, value, stakeholders, brand, reputation, trust and/or strategic/business goals of an organisation." Perceptions can be as powerful in their consequences as actual events. I want to base this presentation on this wider definition – the possibility that a crisis can result from perceptions as well as events.

To return first to the weekend in 1995 when Barings collapsed. I learnt a lot that day and in subsequent weeks about crisis management – not least that the personal agenda, the impact on individuals, on the people involved, has to get as much management attention as the organisational and financial issues and challenges. Within the Baring Foundation, a 'family' charity where over a third of my Board were Baring family members, I had to make huge allowances for their individual reactions to the crisis and to their family name becoming a subject of jokes and scathing criticism in the media.

But, in addition, I also had individual staff and advisers who were caught up in what was for them also a personal crisis – their world had imploded; they were all brilliantly professional and worked phenomenally hard right through the immediate and very stressful aftermath of the crisis when none of us were sure if we had a job – or were even going to be paid for that day's work. Through all that they stayed fantastically focused on ensuring that another group of individuals who were caught up in our crisis were kept informed accurately and directly – the trustees, volunteers and staff of the charities the Foundation regularly funded, the 500 people within those community organisations and social enterprises who were dependent in part on our grants for their salaries and their ability to continue their work with some of the most disadvantaged groups and communities throughout the UK and in sub-Saharan Africa and Latin America.

So – **first observation**: look after the people. Ofcourse the Board and management of a Foundation must be effective in the way they handle the financial and organisational components of a crisis; but the personal dimension is critical – fail to get that right and no amount of efficient technical responses will be sufficient.

Second observation – accurate and timely information is vital. Foundations tend to be wary of the media or to keep their distance from the press. I think this is short-sighted – in good times as well as in bad. Our first communications priority was to ensure that all our 'stakeholders' – especially the groups and organisations we were funding – heard from us direct and we spent a huge amount of our time ensuring that they did so. But we also used the media extensively – not just the specialist charity sector media, who we did already know, but the general and the business and financial media. For us the latter were uncharted territory – we had to work very hard and very quickly to engage with that media, to 'translate' from Foundation jargon into journalist friendly language, to ensure we had all the data at our finger tips about the impact on our work of the crisis – a tough test of our IT and data systems which they (and the staff member who led that work) passed brilliantly.

The particular circumstances of the Baring Foundation crisis may have been specific – and I hope no Board members or staff of any Foundation encounter anything like it; but the experience is not guaranteed to be unique – so, a **third observation**: a terminal threat can happen to any foundation. Indeed in the UK we have, during the last 12 months had two major Foundations encounter potentially terminal crisis. Both are Corporate Foundations, linked directly to single companies, from whom they derived all their income: Northern Rock Foundation and, probably less well known outside the UK, the Camelot Foundation; the latter, in particular, was treated disgracefully by the company that funded it and illustrates, all too graphically, that Corporate Foundations are far from ‘independent’, that they can be extremely vulnerable and often have as Board members people who are hopelessly conflicted.

However, it’s not just corporate foundations, especially vulnerable though they may be, that can hit the rocks. For example, in the UK, another charitable funder which has encountered events with potentially very threatening financial consequences during the last 12 months is BBC Children in Need, the grant-making charity of which the BBC is the trustee and which raises well over £20M each year from the general public in a single evening’s broadcast. When the BBC was hit last year by a scandal about fraudulent telephone voting on live programmes, Children in Need found itself caught up in the crisis – the impact of the crisis on how the charity was ‘perceived’, on its public image (and, therefore, on its ability to involve thousands of volunteers in fund-raising activities) was very negative and it has struggled to overcome it subsequently.

As this case illustrates, reputational risks can have very immediate impact on the income and security of charitable funders that have to raise some or all of the money they need to fund their work from public donations – rather than from an endowment. Note, for example, the problems caused for several of the leading Dutch charities last year by a television programme that focused on their investment strategies and found many of them held investments in companies whose products or services harmed in some way the people, communities or causes the charities were trying to help.

And, looking further afield, this issue of tainted investments does have the potential to generate crisis for endowed foundations. The dissonance between what a foundation aspires to do philanthropically, its charitable mission, and where and in what the majority of its resources, its capital assets, are invested, has been prominently demonstrated in the USA over the last 18 months since the *Los Angeles Times* highlighted very vividly how the Gates Foundation was investing large sums in companies that were directly harming the communities the Foundation’s grants were intended to help. At the time, after a PR wobble, the Gates Foundation reasserted the position of so many of the largest endowed foundations (and of their investment advisers and managers), that they would not ‘mission test’ their investments or try to connect what they did with their assets to what they were trying to do with the funds they give away. Significantly, however, the criticism in the *LA Times* of one foundation, albeit the largest in the world, did spur other foundations to review their investment policies – the reputational crisis hit them both intellectually and in public perceptions (as one commented: “it does not make sense to use only 5% of our resources for our charitable purpose if we could also, through our investments, do so much more”). When the *LA Times* revisited this issue at the end of last year, they reported significant movement by some high profile foundations like Kellogg – and we have seen further action subsequently; even Cambridge Associates, the, some would say notoriously conservative, investment strategy advisers, have teamed up with a group of foundations which are trying to implement mission connected investment practice across their endowments.

Until last year, I think most US Foundations saw reputational crises as stemming only from ‘bad apple’ scandals (excesses such as the Foundation President caught out increasing his already huge salary to cover the cost of his daughter’s wedding; or blatant favouritism in grant making towards friends or business associates). Such incidents can – and have – had reputational consequences for otherwise exemplary foundations; guilt by association has great media and public resonance. From the reference I made just now to the impact of the *L A Times* coverage of the Gates Foundation, what foundations do with their investments can also become a reputational issue for all foundations as public institutions – and potentially a generator of reputational crisis for individual Board members within their communities.

Similar crises can arise here in Europe – provoking similar exposure and difficult consequences for all Foundations – not just those caught up in the spotlight. We have seen some of this in the UK as part of the decline in public trust and confidence in charities – partly prompted by some individual scandals, partly by hostile press comment.

Other crises can hit foundations, obviously, resulting from events such as:

- a failure to anticipate succession problems – the death of a settlor, or of the Chair – or the CEO
- an income slump resulting from a volatile or collapsing market
- or the reverse, an unexpectedly rapid growth in wealth

All can create havoc within a Board and staff group; all are potentially disabling – but all are also possible to anticipate.

Which brings me to some thoughts on how a Board and CEO of a Foundation can minimise crises if they do arise:

- whether they be a crisis for that specific foundation or for foundations generally
- whether they be a crisis brought about by financial crisis within the source of a foundation's wealth
- whether they be a crisis in reputation and perception, rather than one that is tied to specific event .

I suggest several key ingredients

Be **Risk Alert** – some of the crises I have mentioned were extremely unexpected – but not unimaginable; any organisation, foundations included, should ask itself 'what if' questions and ensure it can avoid or withstand possible challenges; and look far enough ahead to anticipate positively succession or other predictable events

'Do No Harm' – not just in relation to the impact of a thoughtlessly managed investment strategy of the kind to which I referred earlier. Foundations may also be doing harm in the way they give away funds, creating crises among those they support by the ways they behave towards them. How so? Foundations like to see themselves as benevolent and kindly institutions, working in the best interests of the charity and civil society worlds. That's not guaranteed or a perception shared automatically within those worlds. There, foundations can be seen as arrogant, out of touch and, whether because of a fixation on process and compliance or because they have never tested the way they are seen in their 'market', to be behaving in ways which their grantees have to suffer rather than to celebrate. It would be very sad if foundations were, in practice, contributing to crises within the sectors they are seeking to support – it's certainly possible, given the perversity of the practice of some foundations.

Invest in communications – **Clarify and Justify** – directly. Reputation and positive perceptions have to be built – and earned – through high quality performance and achievement; and then telling the story, not hiding learning or success (or lack of it). A foundation that has lost its way, that cannot explain or justify with confidence, credibility and conviction what it is trying to do and how it is getting on – I suggest that is a foundation in crisis

Be transparent – most of the 'bad apple' crises in the USA seem to stem from a combination of personal hubris and an unsustainable conviction that "it's none of your business." It is – everything a Foundation does, even a private family one, is unavoidably "in the public interest"

Demonstrate Accountability – in UK, trustees hold the assets of a foundation 'for the public benefit' so they do have some general public accountability; I suggest the same is true, whatever the terminology, throughout Europe. More specifically, I think, foundations have an accountability to the people and communities who are the intended beneficiaries of their charitable mission and aspirations – and they should give priority to behaving in ways which makes that real.

Stay **Dissatisfied and curious** – always looking for ways of doing better, checking the quality of the work, testing if applicants and grantees assess foundation performance positively – listening to feedback and for lessons learnt.

In summary, therefore, the best way a foundation CEO can ensure that her or his Board will act effectively in a crisis? ***Ensure that the quality of the foundation's governance is high as possible.***

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