

Corporate Governance and its contribution to
risk and crisis management in small companies

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Abstract

Corporate Governance and its contribution to risk and crisis management in small companies

Small companies are regarded by policymakers and society alike as being important sources of wealth creation, employment generation and innovation. Yet, many small companies fail to grow or simply grow to then fail. One potential way of explaining the high rate of failure is through the absence of meaningful appropriate, and relevant corporate governance. The few studies undertaken on corporate governance in small companies and its constituent sub-sets of risk and crisis management typically focus on one of those elements rather than, as this study does, adopting a more holistic and combined perspective.

This thesis aims to contribute to knowledge through an exploration of the way in which corporate governance can assist in improving the management of risk and crises in small business. To explore this phenomenon, four small companies feature in a multiple case study using a qualitative and inductive approach with an exploratory questionnaire and interview-based research as the principal sources of data.

According to owner-managers' and directors of small companies, corporate governance is acknowledged as a matter of importance but is, in practice, of peripheral concern with operational imperatives dictating the conversation. External influences and compliance requirements are drivers of fuzzy governance procedures although concerning risk, previous incidents are found to be an influencing factor related to policy, processes and practices. However, the key determinant relating to the functioning of corporate governance, risk and crisis management is that of the attitudes, values and beliefs of the owner-manager.

The findings suggest that the appreciation of corporate governance, risk and crisis management is weak and that the actors involved tend to have disparate levels of understanding of both the issues involved and the consequent implications of failure at policy level for both themselves and the company.

Dedication

I dedicate this thesis to the Entrepreneurs, the Bedroom Start-Ups and the Little Guys whom, against all the odds, have been brave enough to have a go. You have my admiration and respect.

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Acronyms and Abbreviations

ABS Association of Business Schools
ACCA Association of Chartered Certified Accountants
AET Affective Events Theory
AIM Alternative Investment Market
BISS Department of Business Innovation and Skills
BEIS Department of Business Energy and Industrial Strategy
BSI British Standards Institution
BU Bournemouth University
CSR Corporate Social Responsibility
CSSSC Cross Sector Safety and Security Communications
CDT Cognitive Dissonance Theory
DTI Department of Trade and Industry
EU European Union
CG Corporate Governance
ECoDA European Confederation of Director Associations
ESV Enlightened Shareholder Value
EU European Union
FRC Financial Reporting Council
HBR Harvard Business Review
HR Human Resources
HRT High Reliability Theory
ICAEW Institute of Chartered Accountants in England and Wales
IFC International Finance Corporation
IOD Institute of Directors
IRM Institute of Risk Management
MAR Meaningful, Appropriate and Relevant
MD Managing Director
Mgt Management
MHT Managerial Hegemony Theory
NAT Normal Accident Theory
OED Oxford English Dictionary
OGC Office of Government Commerce
OM Owner-manager
OECD Organization for Economic Cooperation and Development
QCA Quoted Companies Alliance
RBV Resource Based View
RSA Royal Society of Arts
SME Small to medium-sized enterprises
TOR Terms of Reference
TVA Tennessee Valley Authority
UK United Kingdom
UN United Nations

Preface and Personal Statement

As a company director for over thirty years, and having sat on the boards of large and small companies, principally the latter and usually in the role of chairman, I have been party to a rare insight into the dynamics of the boardroom, often referred to as the “Black Box”. From that position of an “inside dealer” I have been privileged to observe and participate in some five hundred board meetings both as a director and as a consultant to boards under the auspices of own company. As such, I have approached my PhD research topic with “previous form” and baggage that has at times been helpful, at others not. The PhD journey has, at times, been difficult and perplexing as my own pre-conceptions have been critically challenged and their weaknesses exposed.

One clear message has dominated during my PhD studies. That message is both simple and profound and teaches that learning is a process of continual renewal and regeneration, of re-structuring one’s thoughts, ideas, values and beliefs to the extent that one inhabits the “*discomfort zone*” rather than the beguiling promise of Nirvana or the artifice of Elysium.

The motivation to undertake a PhD was, as Richard Bach wrote, to embark upon “a journey into the self” and in so doing improve my professional skills as a director in addition to contributing to knowledge concerning corporate governance in small companies. That knowledge resides in a context that bridges the Aristotelian concepts of *sofia* and *phronesis* and is knowledge that I trust will have some measure of impact in the boardrooms of small companies. If as a consequence of my study, one small business survives a crisis, then this PhD will have meaning and value beyond an academic pursuit presented to an academic audience. This study and the associated processes related to it have had a bearing upon me at a personal level long before completion. Undertaking a PhD has not only enhanced my “know about” in addition to adding to a residual stock of “know how”, but has contributed to my effectiveness as a company director capable of exercising a more analytical and insightful understanding of the concept of direction. Furthermore, the PhD process has facilitated a greater appreciation of the diversity of pathways to knowledge, problem solving and the linking of theory to practice.

Acknowledgements

Deepest gratitude goes to my supervisors Professor Steve Letza and Associate Professor Donald Nordberg for their encouragement, advice, support, friendship and sense of humour throughout the undulating journey that has led ultimately to the completion of this thesis. Their knowledge, enthusiasm and critical guidance have helped me to develop as a researcher in spite of a lifetime spent at the sharp end of business.

Special thanks to Professor Dean Patton and Dr. Julie Robson who provided me with a reality check at my Transfer Viva. Thanks are also due to many other academics and support staff for their invaluable inputs to my professional development.

I am most grateful to the organisations that have participated in my research. Without their support this study would not have been possible.

I would also like to express my thanks to my fellow students from Bournemouth University for their encouragement and camaraderie.

I also owe a debt of gratitude to my late parents who, without the benefit of schooling beyond early teenage years, provided the spark that ignited the fire of learning, inquiry and adventure in their son.

Declaration

I declare that this thesis contains no material that has been accepted for the award of any other degree or diploma in any institution or university. The thesis is based on my original work except for quotations and citations which have been acknowledged accordingly. I also declare that this thesis has not been previously or simultaneously submitted, either partially or wholly, for any other qualification at any university or institution.

Leslie William Spiers

March 2018

Introduction

Background

For investors to trust a company enough to buy its shares and for lenders to supply loan capital a *sine qua non* is that the company will be managed and directed using, what Section 174 of the Companies Act 2006 describes as, “reasonable skill, care and diligence”. The exercise of these attributes are demonstrated through the implementation of effective corporate governance by the Board of Directors through its twin roles of “pilot” and “watchman”.

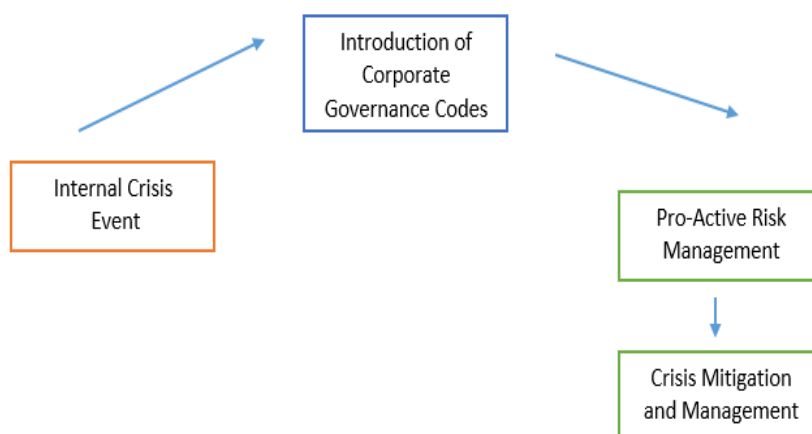
Following a number of high profile corporate scandals in the UK such as the failures of BCCI, Polly Peck and the Maxwell Communications Corporation, all of which collapsed in 1991, (Mallin 2004; Nordberg 2011; Cheffins 2015), the Financial Reporting Council, the London Stock Exchange and the accountancy profession, with backing from the UK Government, established a committee to examine and report upon the financial aspects of corporate governance. In 1992, the year following its inception, that committee, chaired by Sir Adrian Cadbury, issued what is widely referred to as “The Cadbury Report”.

The Cadbury Report and its recommendations acted as the springboard for the development of a series of codes of practice, initiated outside the legal system, to raise the standards of corporate governance in the UK. Subsequently, the effects of the Cadbury Report have been felt beyond the shores of Great Britain and Northern Ireland (Nordberg 2011) as awareness of the value and contribution of effective corporate governance has become a matter of international concern (Cheffins 2015).

Corporate governance codes and the associated boardroom protocols, as recommended by the Cadbury Report, came about as a direct response to corporate crises, such as those mentioned above, that destroyed shareholder value and undermined public confidence in institutions. Thus, a question posed to the boards of large companies, to whom the code is directly applicable on a comply or explain basis, is related to how boards of directors can effectively analyse, identify and mitigate the risks that may lead to crises and should an unanticipated incident occur to then ensure that the event is well managed.

The 2016 UK Code of Corporate Governance alone contains 36 references to risk and specifies a requirement to manage and mitigate risk thereby preventing or minimising the impact of a risk becoming a reality and resulting in a crisis whether internally or externally driven. Similar codes across the world likewise contain references to risk. In what may be considered a homeostatic model, it can be seen that the impetus behind a call to higher standards of corporate governance through codification is derived primarily from internally created failures leading to an internal crisis event, see Figure 1.

Figure 1: Homeostatic Model



Source: Author

This homeostatic model is essentially reactionary and whilst it has internal crises at its source thus reflecting the crises of the early 90's, external events such as conflict, political change and natural hazards could equally be added as an adjunct. Dang-Nguyen et al. (1993) claim however, that the differences between internal and external drivers are irrelevant and have all but vanished in an ever-increasing world of technological complexity where the interface is akin to that of diaphanous gossamer.

Thus it was major crises that precipitated the development of corporate governance codes which in the UK have no force of law and are based upon a belief that statutory measures would lead to compliance with the letter, rather than the spirit, of the law. Nevertheless, Dunsire (1993) points out that where there are structural failures that are the pre-cursors of crises, the government of the day often turns to legislation to minimise the chances of a recurrence or to

prevent further harm. Examples of such are the Clean Air Act 1956 introduced in response to lung diseases caused by “pea soup” smog, the Road Traffic Act of 1962 that addressed rising road traffic accidents as a consequence of driving under the influence of alcohol and the Health Act 2006 that prevented smoking in public places as a response to increasing incidences of lung cancer. A recent example of legislative nudge related to environmental damage was the introduction of a small charge for plastic bags resulting in an 83% reduction in their use (UK Government 2017b).

However, in seeking to address public concerns regarding the behaviour of boards of directors, UK lawmakers preferred an approach that did not resort to legal instruments but rather relied upon self-regulation and the process of collibration, a term used to describe unobtrusive intervention by using social tension to tip behavioural change that is generally achieved through the participation and support of non-governmental agencies.

Self-regulation, with caveats, was the underlying principle behind the Cadbury Committee’s recommendations on corporate governance and those of its various successors all of which had at their focus the large corporation. The vast majority of businesses in the UK, in common with the rest of the world are, however, small enterprises where concepts of corporate governance and its practice are a peripheral matter (Spiers 2017), seen by owner-managers as having limited relevance to businesses that frequently operate on the survival rungs of Maslow’s hierarchy.

Small companies are, by their very nature, fragile and tend to have limited resources that would enable them to withstand a crisis irrespective of its origin. Operational imperatives transcend planning for the unexpected and as such, risk awareness, risk analysis, risk identification and risk and crisis management policies and procedures tend to be fuzzy and imprecise, if indeed they exist at all.

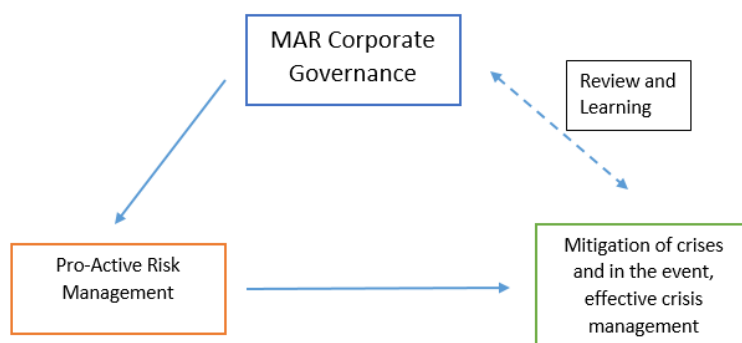
Moving from the tripartite homeostatic model that involves reactivity and the concomitant implications of perturbations in the context of survival, this thesis proposes that a collibration model (Kirkbride and Letza 2004) has greater relevance to small companies in dealing with unanticipated events within a meaningful, appropriate and relevant (MAR) framework of corporate governance.

An example of collibration found within small companies is evident in the widespread adoption of standards such as ISO 9001, a commonly used quality standard that is independently verified and accepted across networks (Mayntz 1983). Such standards are not determined by statute but nevertheless assist in the promotion of best practice determined with, and by, actors within industry and look to foster a pro-active attitude towards specific risks allied to processes. Attempts to nudge behaviours using collibration have been made in the last decade by bodies such as the Institute of Directors and the British Standards Institution through the introduction of self-regulated corporate governance codes applicable to non-listed companies in the UK. The policy objective of such actions is to improve corporate governance together with risk and crisis management and, *ipso facto*, decrease failure rates in small companies that in turn have a negative effect on the UK economy.

A collibration model therefore considers the relationships between corporate governance, risk and crisis management through the lens of pro-active corporate governance, see Figure 2. The model has meaningful, appropriate and relevant (MAR) corporate governance, which is not subject to comply or explain, as the driver of risk and crisis management.

This context-driven model functions in practice with the introduction of the “invisible hand” of the market by way of a kick-start through intervention and nudge that is consistent with public policy objectives.

Figure 2: Collibration Model of Corporate Governance for small companies



Source: Author

But here's the rub: one clear and distinctive feature of a small company that sets it apart culturally from a large enterprise is that of the all-pervasive influence of the owner-manager and without due weight being given to this factor, the practice of corporate governance, at whatever level of sophistication, cannot be assessed without acknowledging the impact of the values, defined as "the moral principles and beliefs or accepted standards of a person or social group" (Collins Dictionary 2018a).

The collibration model with the addition of this additional factor is the backdrop to this thesis which seeks to explore the contribution of corporate governance to risk and crisis management in small companies.

Research Gap, Research Questions and Contribution

Small companies are an under-researched area in general, but more specifically, there is gap in the literature concerning our understanding of how corporate governance functions in small companies and the contribution of corporate governance to risk and crisis management within those small companies.

Mitroff and Anagnos (2000) claim that over recent years there has been a sharp increase in the number of crisis events, due in large measure to added complexity and the pace of change in social and technological systems. In addition, improved communication networks have raised our level of awareness of such events. They argue that, accordingly, crises more than ever, have become an integral part of modern business and public life.

Mitroff and Anagnos (2000) further propose that ever-increasing reliance upon technology and its associated supply chain exemplifies the ubiquitous nature of interconnectedness and the corresponding vulnerability inherent within such intricate structures, most of which are poorly understood by owner-managers of small companies. Boin and Lagadec (2000) support this view when they note that,

"Crises are becoming more complex in nature; they are increasingly trans-boundary and interconnected". Boin and Lagadec (2000, p.185).

As small companies, in many cases, tend towards insularity and focus on operational imperatives owner-managers see corporate governance, of which risk and crisis management is at its core, as peripheral issues despite acute vulnerability from unanticipated events in the interlinked spheres of business and personal life.

This study therefore, seeks to address this gap in the literature and hence to make a contribution to the body of knowledge accordingly. The overarching question is therefore, “How can corporate governance contribute to risk and crisis management in a small company?” The detailed research questions are outlined below.

Structure of the thesis

In seeking to address these questions, and following an introduction, Chapter 1 of this study examines the principles, practices and paradoxes of governance within the nation state and its sub-set corporate governance, so described in The Cadbury Report of 1992 as “the system by which companies are directed and controlled” (Cadbury 1992, p.12). This chapter introduces the concept of risk and crisis management, both of which are core element of effective corporate governance. A provisional conceptual model is developed against which the research question is established.

Chapter 2 comprises an extensive literature review whilst Chapter 3 outlines research philosophy, research strategy and methodology. The study is inductive in nature and is consistent with the subjectivist philosophy of the author. The study is based within a real life context and answers the “how mode” of exploratory questions. Accordingly, analysis of data is undertaken using an interpretivist phenomenological approach (IPA).

According to Remenyi et al. (2009) this paradigm of enquiry is concerned with a,

“theoretical point of view that advocates the study of direct experience taken at face value; and one which sees behaviour as determined by the phenomena of experience rather than by objective and physically described reality” (Remenyi et al. 2009, p.34).

This research uses an exploratory questionnaire to ascertain current practices and attitudes amongst directors relating to corporate governance and risk and then develops those findings through use of a multiple case study method to explore in depth a contemporary phenomenon related to small companies and how corporate governance in such entities contributes to risk and crisis management.

This is followed by Chapter 4 that details the approach to data collection and analysis. Data are extracted through a series of semi-structured interviews with owner-managers and directors of four small companies. Subsequent analysis of that data is undertaken using NVivo software. Data are reduced to a series of Higher Order Themes and the original conceptual model is revised in the light of the findings.

Chapter 5 introduces the four companies that feature in a multiple case study and describes the participating organisations together the respective contributing directors.

Chapter 6 presents the analysis and findings of the pre-interview exploratory questionnaire and the findings of a series of semi-structured interviews with the various directors of the case companies.

The thesis concludes with a discussion of the findings of the study and its contribution to knowledge. One of the main contributions of this study is that it expands upon previous research conducted into the role of the owner-manager by placing his or her personal disposition and concomitant attitudes, beliefs and values as the impetus of corporate governance rather than codes and legal compliance.

The research finds that there are varying levels of awareness of corporate governance processes and procedures on the part of the owner-manager, or their proxy, albeit with an acceptance that such mechanisms add value.

Probing more deeply, it is discovered that where formal board meetings are held there is an undercurrent of belief that such events are more of a symbolic and

ceremonial nature than a genuine gathering of decision-making, independent equals.

There follows an assessment of the limitations of the study together with its implications for both theory and practice and recommendations for further research.

The final paragraphs offer a few concluding remarks concerning the nature of corporate governance in small companies and suggest that in order to engage with owner-managers a starting point may be a re-naming of the concept to better reflect its applicability and relevance to the 208,000 small and 5,445,000 micro businesses in the UK.

Chapter 1–Governance, Corporate Governance, Risk and Crisis Management – Principles, Practices and Paradoxes

Overview of the chapter

This chapter embeds the concept of corporate governance firmly within the overall umbrella of the regulatory systems that operate within the nation state together with its instruments and agencies of government, its laws, its protocols and its directives.

The chapter then moves beyond legal considerations and reflects upon ethical and behavioural matters associated with both the governance of the people and the governance of the corporation. There follows a short deliberation on the philosophical and practical aspects of corporate governance that draws heavily upon a stream of thought emerging from classical Greece, through the Renaissance and The Enlightenment to Adam Smith and Humanist philosophy.

The chapter then introduces agency theory, a construct that has been central to thinking on corporate governance for decades, and then examines more recent theories related to the way in which corporations are governed. The chapter goes on to explore the relevance of corporate governance to small companies - the contextual heart of this thesis - and introduces the nature of the risks faced by such companies and the implications of a crisis event.

Governance- its context and purpose

Governance relating to corporations and organisations – “corporate governance” - functions as a system within a wider structure of jurisprudence that prescribes, evaluates and amends societal “ground rules” through legislation, directives and executive orders. Such regulation is designed to create stable mechanisms through which, *inter alia*, trade and commerce can act as a force for good and enable ethical and equitable contracts to proceed. The way in which organisations are governed within democratic a state such as the UK, is a critical factor in maintaining a just and fair society through the appropriation of taxes paid

and the redistribution of wealth as a consequence of the gross added value achieved through trade that enables public services to function.

Beyond the legal prescription related to governance of organisations, there is a raft of interpretations related to processes that are contained within industry-based codes and professional protocols upon which concepts of good practice, good behaviours and ethical considerations are determined through collibration. However, “governance” at the level of the nation state, into which corporate governance dovetails, could be considered as a theoretical concept alluding to the practices and activities by which stable mechanisms and organisations are created and develop. Governance of the nation state, according to Fasenfest (2010) is concerned with decisions and processes designed to reflect social expectations and exercised through the mechanisms of government.

Additionally, the term “governance” can be used as a means by which it is possible to identify the structures and procedures that offer the citizens of the nation-state the stability, security and ethical framework that enables them to engage in purposeful and meaningful lives and to meet the mutual obligations placed upon each party by civil society. Crane (2011), in his work on cross-sectional partnerships, seeks to differentiate the nature of governance and refers to “big G governance” and “small g governance” (Crane 2010, p.17) with the former referring to societal governance in contrast to the “small g” governance that is applicable to organisations.

In the context of the nation state, “big G” governance, as practiced, is the means by which the rules, and the values that they reflect, are conceived, implemented and enforced. Such rules are the object of an incessant series of compromises and iterations between the actors of state who produce the rules, and the governed, whose acceptance and consent to abide by them is the ultimate arbiter of the legitimation of those rules. However, such enlightened, or even Utopian, principles remain far from universal in cases where the power of authority does not require consent by common will and is neither subject to scrutiny nor onerous in its obligations to the franchise. Rawls (1999) describes such governance and its dysfunctionality in terms of “outlaw states”, (Rawls 1999, p.81) and as

“societies burdened by unfavourable conditions”, (Rawls 1999, p.106) or as “benevolent absolutism” (Rawls 1999, p.92).

Governance, in its normative state, is designed to lend transparency to the activities that take place within the process of government. It seeks to ensure that the delicate equilibrium that exists between ideologies of sovereignty and the stakeholders, whose credit legitimises those processes, is maintained. Such fundamental notions, it could be argued, are the bases of a philosophical construct concerning the nature of governance and the efficacy of its various manifestations. Hence, the polysemous disposition of the term “governance” is such that its translation occupies a continuum that extends from, at one extreme, a term associated with reverence and admiration, whilst at the opposite extreme, a term that is not infrequently linked with authoritarianism and oppression (Roseneau and Czempiel 1992).

Governance, across a wide spectra, is contextual in both policy and in practice, although, from an occidental perspective that tends to engage with fluctuating neo-liberalism, free markets and *laissez-faire* individual rights, it could be argued that the prevalent governance paradigm of democracy based on plebiscite is one that is generally valued and appreciated by the citizenry, despite its flaws, inconsistencies and inherent aberrations (Bowler et al. 2007). Yet, seen through other lenses, governance may be widely perceived by the governed as little more than the preserve of despotic, distant, self-serving, self-imposed and self-perpetuating ruling elites (Jamal and Tessler 2008).

Governance - a universal or relativist concept?

As the previous paragraph illustrates, what could be considered as acceptable governance, is, by its very nature, heterogeneous and operates with contextual legitimation and the general will. Accordingly, the notion of the universality of governance principles may be subsumed and diminished in favour of deeply-held customs, rites, practices, cultural norms, religious observances, ethical positions and communal attitudes or indeed dispensed as a consequence of totalitarianism (Stack et al. 2015). Governance, therefore, it can be argued, should not be seen as an absolute concept as advocated by Kant (Howell and Letza 2000), but one that is itself a paradox. It relates to the circumstances in which it takes place and

is a notion that morphs according to life situations. Practices that, for example, may be considered as “ethical” in one society may be viewed with distaste or abhorrence in another context. An instance of such relates to differing attitudes to usury between countries of an Islamic tradition and much of the remainder of the world. A further example illustrating this point is the case of the widely divergent views that exist relating to female genital mutilation that vary from viewing the practice as a serious assault punishable by a custodial sentence, to a claim that it is a legitimate rite of passage that carries with it certain health benefits. The matter of slavery, [the Global Slavery Index estimate that in 2013, 29.8m individuals were enslaved (Walk Free Foundation 2013)] a practice widely thought of as inhuman, is considered by some to be part of the natural order and justified by biblical passages such as those contained in Deuteronomy 15:12-15; Ephesians 6:9; Colossians 4:1 (God. 2008) that give instructions on how slaves should be treated, thereby tacitly affirming an *a priori* assumption that slavery is somehow acceptable (Reddie 2007).

Despite divergences in contextual norms relating to what may be labelled as governance ethics (Melé et al. 2011), international governance charters such as the United Nations Declaration of Human Rights are conceived with an expectation of universal application and compliance, and for non-compliance, the exercise of sanctions remains available although, in practice, monitoring of aberrance and subsequent legal retribution is frequently limited to little more than moral opprobrium and “naming and shaming” (Cronin-Furman 2009, p.177).

Relativism exercised the mind of the Italian political theorist Gramsci (b.1891) as he considers the nature of culture and cultural practices and their influence on governance from a Marxist perspective and asserts that prevailing cultural norms are imposed by the ruling, hegemonic elite and must not be taken as either natural or inevitable. He further asserts that such phenomena must be seen as artificial social constructs that form the basis of domination but which nevertheless transcend imposition and, in time, assume a normative status.

Gramsci’s views add to the relativist argument that the prevailing cultural ideologies are influenced by the impositions of governance (Nowell-Smith and Hoare 1971). Others (Rafiee and Sarabdeen 2012) however propose that it is

culture, which the author defines as the ideas, beliefs, customs, and social behaviours of a particular identifiable people, group or society, that is the core driver behind context-related governance.

Governance and Ethics

The philosopher John Locke (b.1634) commonly known as the "Father of Liberalism", claims that a relationship subsists between governance and ethical behaviours in the form of social compacts (Locke 2001). Kant (b.1724) extends this theme to the level of the person with his belief that behaviours are such that, as individuals, we are obligated to do what is right as we internalise a code of virtue ethics (Gregor 1996). Such social compacts are evident, for example, in the behaviours of many early American settlers that enabled them to live in such a way that both altruism and the greater good combined with egoism and self-interest to offer mutual assurances. Following the out-break of civil war, the then US President, Abraham Lincoln, attempted to reclaim this covenant of community in his Gettysburg Address of November 19th, 1863, when he spoke of "government of the people, by the people, for the people". The Declaration of Independence, would appear to echo Locke stating that,

"Governments are instituted among Men, deriving their just powers from the consent of the governed" (Jefferson 1776, p.35).

Lincoln's statement is coincidental with the views of the social constructionists who aver that governments, as political institutions, are created by humans and should only operate with, and by, the consent of those whom they govern. Accordingly, government, and the act of governance itself, may be considered as a series of paradigms, based upon an ethical scaffold, that are designed to conjoin the individual and the institution in order to create a framework of a mutually determined common order.

Governance, as practiced by the neo-liberal state for example, reproduces and endorses a market model, as advocated by such as Hayek (b.1899), that relates to decision-making within which rules and regulations, to varying degrees of permissions, empower, moderate or constrain both government and individual. In this regard, a critical issue for governance is the extent to which the governors

adopt a regressive mode that is inhibitive, or whether it assumes an ontology that is permissive in its posture and creative in its outlook (Hayek 2001). Dependent upon such positioning, the climate for enterprise governance is determined. The extent to which the market or the institutions of political governance should dominate is a debate without end, due in part to the ebb and flow of views on matters such as the impact of globalisation as corporate behemoths circumvent porous legal structures created by the state and wells of capital exploit deregulated markets.

Governance and Government

Political governance operates at a series of levels from transnational, the European Union for example, through international protocols such as the Geneva Convention (1994) concerning the treatment of prisoners of war and the Vienna Convention (1961) relating to diplomatic relations, to the national, regional and parochial. Each layer employs the mechanics of power and influence entrusted to them accordingly. However, government and governance differ. According to Fasenfest (2010) government may be thought of as the office, authority or function of governing, whilst governance, the activity of governing, he defines as,

“a set of decisions and processes made to reflect social expectations through the management or leadership of the government (by extension, under liberal democratic ideals, the will of ‘the people’ as they rule themselves)”(Fasenfest 2010, p.771).

The will of the people permits democratic government to enjoy specific prerogatives in that they, by ultimate consent of the governed, can determine taxes, duties, fees, precepts and levies. Government can regulate institutions; create legal infrastructures that enable the state to function in a secure and ordered manner and develop policies to promote well-being in civil society. In a functioning democracy, the covenant that exists between the government, its process of governance, and the governed, is an enduring agreement that is founded in a political philosophy designed to ensure cohesive behaviours whilst simultaneously maintaining individual freedoms in order to achieve a common aim.

The degree of governmental interventionism varies according to political philosophies from “governance without government” (Roseneau and Czempiel 1992 p.11) to absolutist and centrist totalitarianism. Hence, the infrastructure of government, its agency and legitimation is pre-determined by its underpinning philosophy of governance – the activity of governing and the focus of interest that asks the question, Governing for the benefit of whom?

Altruism and self-interest

Adam Smith (b.1723) states that as individuals, human beings have a natural tendency towards self-interest and egoism that reflect nothing more than prudence. However, Smith then goes on to assert that as social creatures, we are also imbued with a sense of altruism, or beneficence as he calls it, and an innate natural empathy towards others. Accordingly, Smith adds, that when we observe the anguish or joy of others we are capable of reciprocal emotions as a vicarious experience. In turn, he states that others participate in empathising and associate with us. Smith concludes therefore, that morality stems from our social nature and that the effective functioning of trade is built upon these traits between government and commerce. Smith recognises that human beings and their interactions are part of nature and not to be understood separately from it.

Smith also sees social and political behaviour as following a natural logic and makes the same claim for economic acts. He claims that human society is as natural as the people in it, and, as such he asserts that there was never a time that humanity lived outside of society, and political development is the product of evolution rather than a radical shift in organisation.

This leads to a key question relating to governance that seeks to discover how institutions can balance these sometimes conflicting instincts in order to promote widespread prosperity and social cohesion. Smith concludes that, paradoxically, altruism and self-interest can co-exist, stating,

“How selfish so-ever man may be supposed, there are evidently some principles in his nature, which interest him in the fortunes of others, and render their happiness necessary to him, though he derives nothing from it, except the pleasure of seeing it.” (Smith 2011a, p.8).

Smith's philanthropic expression of the nature of mankind reflects a particular view of governance that speaks beyond self-interest despite his conflicting assertion that suggests an acceptance of the predomination of egoism. He writes,

"It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own interest."(Smith 2008, p.119).

Smith fully understands that this channelling of egoism into collective gain occurs only if the market is viewed as a construct (Collins 1988) that does not give primacy to the laissez-faire, but rather has boundaries shaped through morals and social norms set by the state so as to create a more equitable social order.

Bounded by these two ontologies of altruism and egoism dwells the essence of governance, its purpose and the roles of the actors involved.

Governance, Corporate Governance and Ethics

Corporate governance is part of a congeries of governances that reside within the skirts of political, or nation-state governance (Becht et al. 2007) whilst Bonnafous-Boucher (2005) argues differently that the theories surrounding corporate governance are of a mere "technical nature" and accordingly its status is "distinct from that designated by the more general term 'governance'" (Bonnafous-Boucher 2005, p.34).

Developing this claimed dichotomy, the literature pertaining to governance of the nation state speaks of liberty, and the rights of people whilst the literature relating to corporate governance is dominated by what may be described as a functionalist, prescriptive and descriptive agenda. Such an agenda is based upon either the orthodoxy of property rights and contracts or a heterodoxy, whose currency is increasing, that has the stakeholders at its focus and seeks to incorporate positive engagement in corporate social responsibility, by way of example, relating to its ethical posture.

The word "ethics", deriving from the Greek "ethos", refers to a "custom" or "habit". It differs from morals and morality in that ethics reflect a world view and

designates the theory of right action and the greater good, whilst morals are concerned with the practice and application of ethical or virtuous behaviour. According to McNutt (2010), corporate governance is, however, less concerned with ethics and morals and is more about processual matters and “box-ticking”,

“process-based behaviour that correlates with ever increasing shareholder value and less about ensuring that the basic principle of ethics – that a person is not a means rather an end – is not violated”.(McNutt 2010, p.745).

Coulson-Thomas (2017) expresses a view that contradicts that of McNutt (2010) and believes that corporate ethics are intertwined and interlaced with ethical theory. He writes that ethics,

“represent the essence of responsible and sustainable business which is based upon trust, the building of mutually beneficial relationships with shareholders, an understanding of risk and the balancing of risk and return.”(Coulson-Thomas 2017, p.1).

Whilst Coulson-Thomas (2017) paints a positive, albeit some may claim, naive picture of business and its ethical dimensions, McNutt (2010) responds, with some justification, it might be argued, that there is an “oxymoronic twist of ‘business’ and ‘ethics’ combined as a workable concept” (McNutt 2010, p.741).

In spite of inadequacies in practice, the Anglo-American model of corporate governance generally aspires to the “good behaviour” philosophies that emanate from the thinking of Socrates (c470-399BC), Plato (c427-348BC) and from Aristotle’s (384-322BC) ethical treatises, (Hursthouse and Pettigrove 2016). These works cover similar issues, each beginning with a discussion of the notion of “*eudaimonia*” meaning “happiness” or “flourishing”, and then go on to examine the nature of “*aretê*” meaning “virtue” or “excellence” and the qualities of character that are needed in order to live a good life and to govern well (Howell and Letza 2000). Both treatises deal with the subjects of praise or blame and reflect on the circumstances as to when laudation or admonishment is appropriate.

Aristotle goes on to extol ethical virtue or *hexis*, a tendency or disposition, induced by our habits, to have appropriate feelings, and states that “Virtue makes the goal right, practical wisdom the things leading to it” (Stanford Encyclopaedia of Philosophy 2017). Furthermore, the associated concept of *phronesis*, meaning practical wisdom or prudence, is a notion considered earlier by Socrates as being synonymous with a virtuous person. In the mind of Socrates, *phronesis* also equates to virtue, and this enables an individual to exercise moral or ethical strength. In Plato's *Meno*, Socrates explains how *phronesis* is the most important attribute to learn, albeit gained not through pedagogic means, but through a process of self-development that in turn leads to morality; and is the ability to distinguish between right and wrong - the foundation of ethics.

Virtue likewise, dwells within the individual and the notion of “Organisational ethics” is merely the aggregation of the ethical values of the human beings that inhabit a given society, and who, through positions of individual influence, power, behaviours and attitudes, create a climate that tends to be principled and moral or alternatively, in extremis, functions as unethical and unscrupulous. Such concepts reflect a constructivist's view of reality as emanating from the individual, whilst constructionists would claim that it is the wider community that is the impetus and the instigator.

In assembling the linkages that prevail concerning governance and virtuosity, moral understanding and the practical implementation of wisdom there is, as Howell and Sorour (2016) describe,

“a clear relationship between governance, morality and the social contract as well as ethical perspectives relating to human existence and social development.” (Howell and Sorour 2016, p.5).

Corporate governance, it can be claimed, is associated with ethical leadership and morality pertaining to corporations and their interactions with a range of stakeholders with whom there are both legal and social contracts. Whilst corporations are established and operate within the framework of the law, they also operate within a collibrational, societal context whereby there is broad consensus that they will act with virtue and within the parameters of Aristotle's triad of knowledge that comprises *phronesis*, practical wisdom, *episteme*,

scientific knowledge and *techne*, skill and craft knowledge. The Companies Act (2006) s.174 describes this as the exercise of “reasonable skill, care and diligence”.

Other Greek philosophers such as Thales, Xenophanes of Colophon (570 - 480 B.C.), Anaxagoras, Pericles (c. 495 - 429 B.C.), Protagoras, Democritus and the historian Thucydides (c. 460 - 375 B.C.) all of whom preceded Aristotle, are instrumental in contributing to the shift away from a morality based on the supernatural to the development of humanism, rationality and free thinking. This view holds that behaviours and relationships should be determined on the basis of rationality and reason, and not by beliefs, tradition, dogma or the diktats of invisible sky gods presented in super-human forms and whose acolytes claim legitimacy on the deities’ behalf. Humanistic philosophy, with its emphasis on the dignity and worth of all people and their ability to determine right and wrong is further developed in the Renaissance that took place in Europe in the 15th and 16th centuries and is expounded by, amongst others, the Dutch scholar Erasmus, the Italian poet Petrarch, the English philosopher, Sir Thomas More and the French writer François Rabelais. Corporate governance and its associated ethical perspective draw heavily upon the Humanist philosophies circulating during that period with,

“its emphasis on the dignity and worth of all people and their ability to determine right and wrong purely by appeal to universal human qualities” (Mastin 2017, p.1).

as the theoretical basis of policy. In praxis there are however legion examples of tectonic schisms that lead to the abandonment of Aristotelian altruism and the degradation of virtue in favour of egotism and hubris, behaviours that frequently lead to nemesis. Demidenko and McNutt (2010) summarise the relationship between corporate governance and ethics, incorporating both the ethical and commercial case for engagement,

“Corporate governance should be more than the mantra “doing well by doing good”. A corporate governance code should become part of a company’s competitive advantage”(Demidenko and McNutt 2010, p.803).

Corporate Governance, Agents and Principals

It was precisely such instances of ethical breaches, within public companies, and the subsequent degradation of virtue combined with arrogance, hubristic behaviours and disdain for shareholders that gave impetus to the formalisation of what is currently recognised as corporate governance. “Corporate governance” is the term that is commonly used to define the processes that seek to improve the way in which the corporation and its directors behave and the means through which it establishes contracts between owners of rights related to the corporation, and those charged with managing the assets of the corporation. Until the early years of the 21st century, the notion of corporate governance resided largely within the exclusive domain of the listed company (Cadbury 1992) with its dispersed shareholding and journeymen managers acting as *agents* of the shareholders, or *principals*. Two models of corporate governance have tended to dominate the discourse in the western world, (Mallin 2004) the first of which is the Anglo-Saxon model of shareholder primacy and secondly, the German model which takes into account a wide range of stakeholders all of whom have legitimate interests in the management and governance of the entity.

At its most basic level, corporate governance seeks, amongst other matters, to address a problem of agency that Berle and Means(1932) raised whereby an external investor, *the principal*, seeks objectives that differ from those of the manager, *the agent*, responsible for the activities, performance and direction of the business (Jensen and Meckling 1976). An increase in the dispersion of share ownership amplifies the agency problem that in turn results in conflicts of interest between principals and agents (Kellogg School of Management 2011). According to Becht et al. (2007),

“Most research on corporate governance has been concerned with the resolution of this collective action problem.” Becht et al. (2007 p.833).

Corporate Governance and Small Companies

Although the agency problem that, as Becht et al. (2007) suggest, is at the heart of much of the research into corporate governance, it has limited relevance to the 5.7 million small and medium sized companies in the UK whose shareholders

and owners are closely associated with the company through managerial, financial and socio-emotional relationships (Gómez-Mejía et al. 2007; Herbane 2010; UK Government 2015b). Within such small companies, the *principals* and the *agents* are frequently the same individuals with coincidental aspirations, values and interests thus rendering the classic agency problem irrelevant.

Nevertheless, researchers recognise that in the case of small, closed companies a system of internal agency can exist between owner-directors, who may or may not be family members, and salaried directors, in the form of altruism and shareholder expropriation (Cronqvist and Nilsson 2003; Siebels and zu Knyphausen-Aufseß 2012). Accordingly, the nature and scope of corporate governance that is exercised in small companies differs significantly from the prescriptive and legalistic models evident in large public corporations (Uhlener et al. 2007b; Uhlener et al. 2007c; Choudhury 2008; Swamy 2011).

Developing this issue, Bannock (2005) claims that the world-views of politicians and civil servants concerned with matters of government and governance compared to those of the owner-managers of small companies are such that there is a chasm of disparity. Bannock (2005) further claims that owner-managers' view governance as an unwanted and burdensome imposition from those whose dealings and affinities are closely linked with public companies where corporate governance plays a significant role in the regulation of markets and the protection of shareholders. Bannock concludes that to most SME owners based in their local communities, central government seems remote and above all "uncomprehending of the reality of their day to day business activities" (Bannock 2005, p.63).

The disconnect that Bannock (2005) suggests exists is a symptom of a lack of appreciation as to the nature of corporate governance and its relevance and value to small businesses who do not consider themselves as "corporates" and whose role is to "manage" rather than to "govern". This issue is matter of critical concern to this study and is germane to the research questions.

Small Companies, Risk and Crisis Management

It is axiomatic that where corporate governance is weak and risk management, a widely acknowledged *sine qua non* of “effective” corporate governance, is given low priority, effective mitigation and response to an unanticipated event decreases thereby opening the door to unwanted disruption (Irvine and Anderson 2004; Herbane 2010; Asgary et al. 2012). Research conducted by Irvine and Anderson (2004) into the impact of foot and mouth disease on small rural tourism businesses in the North of England and Scotland concludes that the ability of the business to manage a crisis effectively represents the difference between “survival and disaster and even life and death.” (Irvine and Anderson 2004, p.234).

In a further study into rural companies, Asgary et al. (2012) assess the impact of the floods that occurred in Pakistan in 2010. They conclude that small companies with limited resources suffer disproportionately greater losses than larger enterprises. This finding is consistent with the extant literature that highlights the vulnerability of small enterprises (Runyan 2006).

The literature related to risk and crisis management in small companies (Drummond and Chell 1994; Smallman 1996a; Mitroff and Anagnos 2000; Herbane 2010; Hong et al. 2012; Mahzan and Yan 2014; Parnell 2014; Doern 2016) portrays a range of responses to the multiplicity of turbulences that may pose a threat to the long-term survival and growth of an already fragile entity (Mette 2014). Drummond and Chell (1994) emphasise this fragility when they state that “Of all the organizations at risk, small businesses are the most vulnerable” (Drummond and Chell 1994 p. 37).

In considering attitudes to crisis management in small companies, researchers (Close 1974; Smallman 1996b) have viewed crisis management through the lens of organisational behaviour theory and proposed the adoption of complex organisational routines for developing adaptive strategies and procedures to manage diverse and adverse circumstances (Chakravarthy 1982). Others (Mitroff and Anagnos 2000) have introduced the idea of information signalling as a critical element in dealing with risk and environmental complexities as a means of mitigation thereby avoiding costly and convoluted crisis response mechanisms.

In contrast, Eisenhardt and Martin (2000) use the resource-based view of the firm to suggest that various fungible resources are deployed to manage differing environmental situations. They argue that such resources represent dynamic capabilities that are idiosyncratic, specific and identifiable processes that include strategic decision making, alliancing and best practice models.

Lengnick-Hall and Beck (2005), however, advocate an emphasis away from adaptive routines towards comprehensive resilience capacity. They propose that in order to cope with the unanticipated event, robust transformations are required that involve internal psychological resilience that engages with anticipation, preparedness and recovery. In turn, Smallman (1996) proposes a holistic model that comprises organisational learning, forecasting and data collection and collation based upon a pre-requisite that embraces a broader world view and a universalist mind-set. How reasonable it is to expect such thinking to prevail in a small business is a matter of conjecture.

The implications of an unanticipated event leading to business disruption can be particularly severe for owner-managers of small companies where social capital, economies of scale, low equity ratio, internal resources and capacities are limited (Irvine and Anderson 2004; Ansong 2013; Gao et al. 2013; Sunjka and Emwanu 2015). Resource constraints in small companies limit both crisis preparation and crisis response despite the direct and immediate consequences of a crisis that, in the case of a small company, may impinge upon both the private and commercial spheres (Doern 2016).

Whilst the consequences of a crisis may have a catastrophic and direct impact on the owner-managers' involved, there is a secondary issue that relates to wholesale job losses and subsequent social disruption in the developmental growth stage of small companies (Ingley and McCaffrey 2007; Cater and Schwab 2008; Karoui et al. 2014). Beyond the micro level, there is also an over-arching macro-perspective concerning the high levels of early stage failure that has a concomitant, largely negative, impact on a local economy (Cochrane 1992) that once aggregated translates to a national economy. Whilst economists refer to such redundancy as *creative* destruction (Schumpeter 2003), owner-managers simply see it as destruction (Doern 2016).

Theorising Corporate Governance

Defining and scoping corporate governance by the FRC and others has almost developed into a mini-industry alongside the development of codes of governance at a national, regional and international. Such endeavours are relatively recent, yet the driving force behind much of the thinking on what is at the heart of corporate governance emanates from the long-standing agency issue. The tension pertaining to relationships between owners and managers is identified by Berle and Means (1932) when they declared in their book “The Modern Corporation and Private Property” that within the largest American corporations, a new condition had developed in that there were no dominant owners and that control is, to a large degree, separated from ownership thus creating dissonance as a consequence of contradictory aims . This view dominated thinking about corporate governance (Hawley and Williams 2000) during the 20th century and into the 21st century as the default paradigm (Cheffins and Bank 2009). Nevertheless, this commonly held perception has been challenged (Hannah 2007; Holderness 2009) with claims that far from a diversified ownership, those same American corporations had a concentrated ownership with fewer shareholders owing greater percentages of the equity. The work of, *inter alia*, Veblen (1997), in his book “Absentee Ownership”, first published in 1923, pre-dates Berle and Means’ seminal publication, and reflects wide concern relating to issues of governance in the early years of the twentieth century. Veblen (1997) refers to the separation of ownership and control and to the disparate interests between managers and shareholders (Lewis 2010) and is a link in the chain of thought that culminates half a century later with the work of Jensen and Meckling (1976) and the enduring concept of agency theory.

The shareholder, Berle and Means (1932) claim, has limited interest in genuine and active ownership and postulate that their prime concern is the capital growth of their investment and the dividends receivable. They argue that with reduced engagement by shareholders, a culture of “managerialism” (Armour and Gordon 2009) would result in executives developing policies that would be inimical to shareholders interests and would allow both egocentricity and pressure groups to unduly influence the management of the business.

Whilst rapacious managers reward themselves handsomely, the shareholders, whose investments are growing, choose to relegate corporate governance to the backseat (Rappaport 2006) and in so doing, it may be argued, they give tacit approval to abuses of power whilst capital growth and dividends are flowing their way in what could be viewed as an act of complicity and an unwise adventure of common purpose.

Contingent or Universal Application of Corporate Governance?

Contrary to the widely held view that corporate governance must be contingent, Maassen (2004) proposes that certain elements of corporate governance principles are universal and can be as relevant to small companies as they are to their larger counterparts. In his work on corporate governance in Macedonian small businesses, he states that practices such as transparency, openness and corporate social responsibility are important manifestations of mature approaches to corporate governance and are, accordingly, germane in attracting finance. Such a position is consistent with both Stakeholder Theory and the view of practitioners as stated in the preamble contained within the Institute of Directors' Corporate Governance Guidance and Principles for Unlisted Companies in the UK which states that,

“Good governance can also play a crucial role in gaining the respect of key external stakeholders - even unlisted companies have to devote attention to their stakeholder responsibilities.” (Institute of Directors 2010, p.6).

However, directors of small companies tend to view corporate governance as being of limited importance or relevance compared with the imperatives related to survival (Uhlener et al. 2007b; Clarke and Klettner 2009). Yet Crossan et al (2015) point out that a lack of governance in small companies is a contributory factor in business failure stating,

“Many of these failures can be mitigated by the introduction of robust governance structures that would potential[ly] provide better planning and management structures”(Crossan et al. 2015, p.3).

Steier et al. (2015) state that

“Governance is widely recognised as a key determinant in the success and failure of all organizing activity” (Steier et al. 2015, p.266).

The literature in this respect points towards a lapse on the part of owner-managers to recognise, appreciate and act upon the issue of causality that links failures of corporate governance to business decline and mortality. Seeking to unwrap this fundamental contra-intuitive paradigm that appears to be the antithesis of rationality represents a challenge to owner-managers concerning the nature, scope and adoption of corporate governance in small companies.

In spite of limited awareness and widespread antipathy by directors of small businesses towards corporate governance (Lane et al. 2006), the Institute of Directors (IOD) are nevertheless promoting and encouraging the boards of small companies to adopt *appropriate* forms of governance procedures that go beyond a mechanistic, box-ticking approach that assumes the agency problem.

Barker (2008) in an IOD Briefing Paper notes a fundamental issue,

“However, the governance of SMEs is not subject to the same sort of dialogue with institutional investors as is the case with larger companies.”(Barker 2008, p.7).

The IOD goes on to observe that, referring to the Combined Code, “An alternative approach would be to develop an alternative code of best practice for smaller companies”(Barker 2008, p.8). The IOD then concluded that smaller companies would gain benefit from a bespoke corporate governance code in preference to the Combined Code (Barker 2008).

Adding to Barker’s words, Clarke and Klettner (2009) refer to the pervasive governance model which for many smaller operators is an unwanted imposition whilst Uhlaner et al.(2007) use contingency theory to propose that “the appropriate governance design for a particular firm likely depends on the context” (Uhlaner et al. 2007b, p.227).

In the foreword to Corporate Governance Guidance and Principles for Unlisted Companies in the UK (2010), the director general of the IOD states that,

“The IOD is convinced that appropriate corporate governance practices can contribute to the success of UK companies of all types and sizes, including those that are unlisted or privately held.”(Institute of Directors 2010, p.5).

Prior to November 2010, the launch date of the IOD’s Corporate Governance Guidance and Principles for Unlisted Companies in the UK, the UKCGC and its antecedents, together with the Quoted Companies Alliance (QCA) AIM code – first published in 2005, were the only UK reference sources for companies wishing to adopt a recognised national governance code. (Others codes such as the Belgian Code Buysse (Buysse 2009) had however been published outside the UK). Corporate Governance Guidance and Principles for Unlisted Companies in the UK does not have at its heart a “comply or explain” requirement but seeks to promote appropriateness based on practices and processes that add value, ensure resilience, profitability and sustainability. This notion is expanded by the IOD referring to corporate governance codes serving the twin role of “watchman and the pilot” and in the case of the SME, the dominant role being that of the “pilot” (Barker 2008, p.3).

Despite a fanfare launch of the IOD Principles, little is known as to the up-take of codes of governance of any kind within small companies either prior to or since the launch of Corporate Governance Guidance and Principles for Unlisted Companies in the UK in 2010 (Barker 2014). Additionally, according to Ponomareva and Ahlberg (2016) and Seidl (2006) there is a paucity of research that supports the normative assumptions that underpin codes of corporate governance raising thereby an opportunity for further investigation.

Reflecting a murmuring of interest in corporate governance amongst small firms and the need for relevant and appropriate processes, the British Standards Institution (BSI) publish a code of practice, BS 13500:2013 for delivering effective governance of organisations stating,

“In a small organisation, there may be only a sole trader who owns, governs and manages their business. Complex, formal arrangements are not necessary, but applying the principles of good governance is still

important for sustainable success” (British Standards Institution 2013, p.2).

The notion of good governance as expressed by BSI would appear to reflect a growing ideology that seeks to maximise shareholder value *and* promote stakeholder engagement which according to Ponomareva and Ahlberg (2016) has increased attention in, and subsequent adoption of, what might be called good corporate governance. Drawing on Institutional Theory, this paradigm shift, Pieper (2003) claims, has led to the growth of a dominant institutional logic that exhorts small companies, and especially family businesses, to adopt corporate governance codes and its associated processes and practices.

The literature therefore would appear to conclude that corporate governance codes of an appropriate, relevant and meaningful nature can contribute to the performance and resilience of small companies and that an overarching “one size fits all” is not a practicable approach to guide and enable directors of smaller companies to conduct effective governance (Sullivan-Taylor and Branicki 2011).

Agency Theory

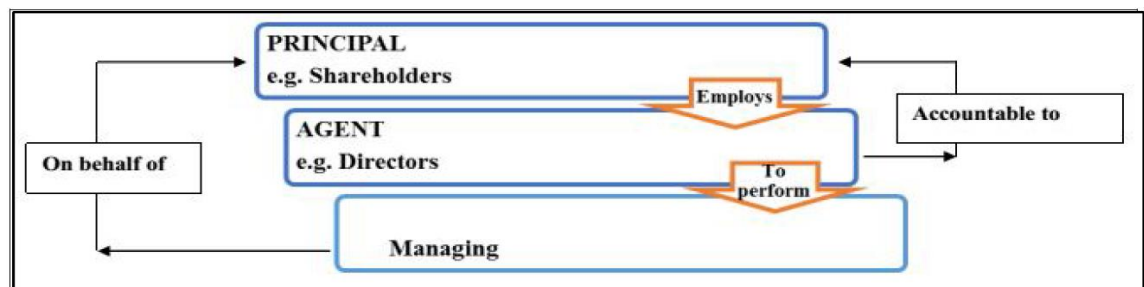
Berle and Means (1932) point towards the uneasy relationship that exists, and continues to exist, between owners, (the principals) and the managers, (who may, in some cases, have the title of “director”) (the agents) appointed to control and manage the company, and underline the differences that can occur between parties with differing and competing interests and goals. The work of Berle and Means (1932) is developed by others who later call the issue raised by them *the agency problem* (Jensen and Meckling 1976; Fama 1980; Fama and Jensen 1983). Agency theory, as it is widely known, is described in simple terms by Eisenhardt (1989) as,

“The ubiquitous agency relationship, in which one party (the principal) delegates work to another (the agent), who performs that work. (Eisenhardt 1989a).

Figure 5 illustrates the essence of this seemingly uncomplicated agency relationship as described by Eisenhardt (1989). In Figure 3, the agents are

exemplified as “directors”. Such “directors” are synonymous with the “managers” as referred to by Jensen and Meckling (1976). However, the neat lines and straightforward relationships belie a gallimaufry of dysfunctionality reflecting in large part the complex, self-serving and acquisitive nature of the human condition (Fama 1980; Clarysse et al. 2007; Smith 2007; Letza et al. 2008; Wellage 2011; Schneider and Scherer 2013).

Figure 3 Principal-Agent Relationships



Source: kfknowledgebank.kaplan.co.uk

Mallin (2004), citing Blair, reflects both the *de jure* and *de facto* roles of the agents, but in recognising the frequently contentious nature of the relationship, emphasises the need for monitoring and control based on an *a priori* assumption that an abuse of power is likely to occur. She writes that managers (for which also read directors) are “supposed” to act as agents of the shareholders (who own a bundle of rights related to the company), but recognises that such managers must be monitored and proper arrangements must provide “checks and balances to make sure they do not abuse their power.” (Mallin 2004, p.11).

Mallin’s use of the word “supposed” could be interpreted as a pejorative term reflecting the default position of the agent as being that of a proclivity towards self-interest, excess and covetousness, conditions therefore that require policing.

Over one hundred and fifty years before scholars in the twentieth century were ruminating on the issue of principal and agent, and, with what may be considered remarkable prescience, Adam Smith, in 1776, wrote that,

“The directors of such [joint-stock] companies, however, being the managers rather of other people’s money than of their own, it cannot well

be expected, that they should watch over it with the same anxious vigilance with which the partners in a private copartnery frequently watch over their own. Like the stewards of a rich man, they are apt to consider attention to small matters as not for their master's honour, and very easily give themselves a dispensation from having it. Negligence and profusion, therefore, must always prevail, more or less, in the management of the affairs of such a company".(Smith 2008Book 5, Part 3 Article 1).

Scholars such as Mallin (2004), Zahra (2009) and Hillman et al. (1989) are united in their view that Agency Theory is the most commonly cited phenomenon within the context of corporate governance. Mallin (2004) however, adds that within an agency relationship there is an additional risk. She refers to a risk beyond the abuse of power to a risk of the agent adopting an attitude of cautiousness and in so doing failing to exploit commercial opportunities. She writes, that beside the risk of abuse of power there is also a risk that "the agent is not sufficiently adventurous" (Mallin 2004, p.11).

Mallin (2004) also articulates a further problem related to the relationship between agent and principal as being that of information asymmetry whereby the agent has access to more detailed information than the principal and furthermore, the agent can decide on what information to give to, or withhold from, the principal.

This asymmetry thereby creates an unbalanced dyadic relationship of dependency on the part of the principal. The agent is thus in a position, as controller and arbiter, to determine the information provided to principals upon which they depend in order to make decisions (Nordberg 2011).

However, such concerns have only limited and tangential relevance to owner-managed small businesses where, in many instances, the owner-manager is the sole shareholder, the sole manager and is frequently the sole director acting as the thinking and controlling mind of the entity (Abu-Bulgu 2007).

In contrast, it can be argued that whilst Agency Theory, in its generally accepted sense, is not prevalent in small companies, the control role of the board in companies with concentrated ownership and associated high levels of hegemony can nevertheless result in internal agency issues relating to minority owners,

dormant owners and non-shareholder directors. Equally, at such a time when additional, non-shareholding directors are appointed there is a risk of an agency situation arising where goals and objectives may diverge and information asymmetry occurs (Huse 2007).

This issue is compounded as the Companies Act 2006 deems that risk and liability can be apportioned to all directors equally, whilst, in practice, executive directors, who are both shareholders and non-shareholders, have more information and knowledge than NEDs who seek to add value through their independence. If, however, NEDs have the same information as executive directors that very independence for which they are appointed is, *ipso facto*, weakened and the likelihood of “going native” increases.

Eisenhardt (1989) summaries the features of Agency Theory, see Table 1, and like Mallin (2004), she appears to use conditionality whilst expressing the main idea that the principal-agent relationship “should” rather than “does” reflect efficacy (Eisenhardt 1989a).

Table 1: Agency Theory Overview

Key idea	Principal-agent relationships reflect efficient organisation of information and risk-bearing costs
Unit of analysis	Contract between principal and agent
Human assumptions	Self-interest, Bounded Rationality, Risk Taking and Risk Aversion
Organisational assumptions	Partial goal conflict among participants. Efficiency as the effectiveness criterion. Information asymmetry between principal and agent
Information assumption	Information as a purchasable commodity
Contracting problems	Agency (moral hazard and adverse selection) Risk sharing
Problem domain	Relationships in which the principal and agent have partly differing goals and risk preferences (e.g. compensation, regulation, leadership, impression management, whistle-blowing)

Source: Eisenhardt (1989)

Likewise, her unit of analysis, the contract between the principal and the agent, is similar to Jensen & Meckling's (1976) description of this relationship using the metaphor of a contract.

Transaction Cost Economics

Closely associated with Agency Theory, is Transaction Cost Economics (Coase 1937; Dewald 2007) which "views the firm as a governance structure whereas agency theory views the firm as a nexus of contracts" (Mallin 2004, p.12). It describes governance frameworks as being based on the net effects of internal and external transactions, rather than as contractual relationships outside the firm such as those with suppliers. Transaction Cost Economics refers to the *a priori* assumption that views managers as seeking certainty and preferring to remain within a comfortable bounded reality. Hence there is a cost incurred to limit the detrimental actions of managers and the associated incongruence of interests that reside outside the formal strictures of the contract that exists between the company and the manager.

Stewardship Theory

Stewardship Theory emanates from the field of organisational behaviour research (Donaldson 1990) and "emphasises the performance function of the board or its strategic role" (Hung 1998, p.106). It offers a contradictory view of the role of agents from that proposed by exponents of Agency Theory (Donaldson 1990) and just as Agency Theory may be aligned to McGregor's Theory X perspective of the economic, self-serving and mercenary person, so might Stewardship Theory be aligned to a McGregor's Theory Y perspective of the altruistic, engaged and philanthropic individual (McGregor 1957).

Likewise, the dominant motives of managers as stewards relate less to Herzberg's Hygiene Factors of dissatisfaction (Teck-Hong and Waheed 2011) that comprise such as company policies, supervision, relationship with supervisor and peers, work conditions, salary, status and security and are more aligned to his concept of Motivators, where achievement, recognition, the work itself, responsibility, advancement and growth take precedence over economic considerations and personal gain (Donaldson 1990; Hunter 2012). Stewardship

Theory is based on altruism (Garratt 2010) or on what Donaldson refers to as the “ethereal hand of management” (Donaldson 1990, p.379). The theory holds that managers are the stewards of the company’s assets and that, as such, they are predisposed towards acting in the best interests of the shareholders (and not of themselves). Garratt (2010) views Stewardship Theory as being closely aligned with the Bantu concept of *Ubuntu* - which is underpinned by a notion of - *I am, because we are* – that incorporates service, connectivity and fairness - the polar opposite to the self-seeking nature of “economic man” so reflected in Agency Theory.

Both Stewardship Theory and Agency Theory, one may surmise, have the shareholder as the principal actor, albeit that the relationships between the shareholder and the agents appointed to act in their best interests are quite different in the respective theories.

Stakeholder Theory

Stakeholder Theory, (Freeman and Evan 1990), and promoted by the Royal Society of Arts’ (RSA) sponsored think tank “Tomorrow’s Company”, (Tomorrow's Company 2016) argues, contrary to Milton Friedman’s view of shareholder primacy (Friedman 1970), that the company should be managed not solely in the interests of shareholders, but that it should take into account the legitimate interests of a wider congregation or stakeholders. Nwanji and Howell (2007) believe that the hypothesis relating to stakeholder theory is both deontological and teleological and,

“underlies the assumption that organisations, as well as individuals, possess moral status and therefore should act in a morally responsible manner.” (Nwanji and Howell 2007, p.348).

They argue that such an approach involves two principles, the first of which involves harming the rights of others and is premised on deontological ethical reasoning. The second involves being responsible for the effect of the organisation’s actions and is based on teleological ethical reasoning.

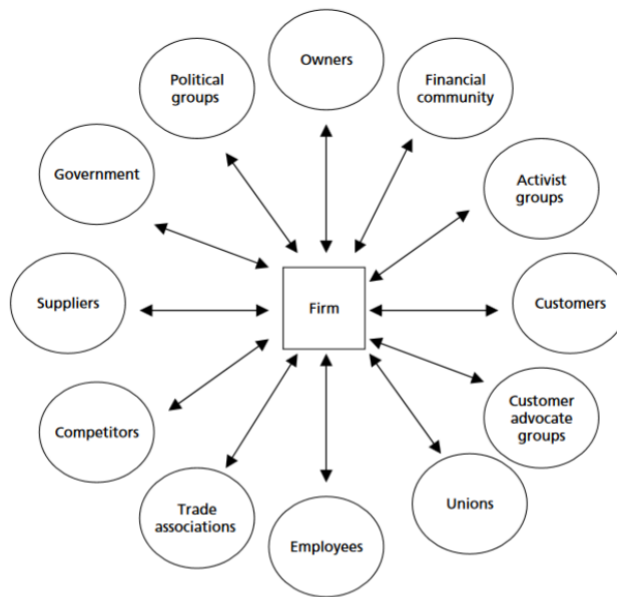
Nwanji and Howell (2007) go on to add that whilst corporate governance is based around ethical theory, the normative sense of stakeholder theory is prescriptive and specifies what managers should do, but an instrumental approach assumes that if managers wish to maximise the objective functions of the firm they must consider stakeholders interests as part of a broader narrative in the life of the corporation. Letza et al (2008, p.20) support this view when they define a stakeholder as “any group or individual who can affect or is affected by the achievement of the firm’s objectives” Letza et al (2008, p.20) and, within the terms of their definition, it can therefore be argued that they ascribe legitimacy to a mutual relationship with the firm that extends beyond the notions of ownership and contractual engagement. Such “goodwill” (Kant 1987, p.17) is brought about in human beings by them acting rationally in accordance with the principles laid down by the “categorical imperative” (Kant 1987, p.31). Moral duties are categorical because they are duties. “The only answer to why one should do their duty is, because it is one’s duty” (Nwanji and Howell 2007, p.354).

Stakeholder theory posits that legitimate contractual and non-contractual interests and relationships exist between the company and a plethora of internal and external factors that may include colleagues, suppliers and customers in addition to local communities, government and society at large, see Figure 4.

Proponents of stakeholder theory hold that such an approach to business leads to superior performance due to higher levels of engagement and motivation of those enjoying a relationship with the firm. One may conclude that such an example is that of The John Lewis Partnership model with its strong ethical stance and its goals more widely defined than the pursuit of profit maximisation (Dandy 1996).

Referring to a stakeholder approach, Tomorrow’s Company, a think-tank with a transparent agenda designed to promote a specific business model, encapsulates the social model and states on its *About Us* web page that, “This approach focuses on purpose, values, relationships and the long term that offer”: (Tomorrow’s Company 2016)

Figure 4: Stakeholders and their relationship with the firm



Source: Friedman and Miles (2006)

Table 2: Tomorrow's Company's Social Model

Purpose	A purpose beyond profit and a set of values that are lived through the behaviours of all employees to create a self-reinforcing culture.
Collaboration	Collaborative and reciprocal relationships with key stakeholders – a strong focus on customer satisfaction, employee engagement and, where possible, collaboration with suppliers, alongside working with society.
Long Termism	A long-term approach that embraces risk – investing long term and embracing disruptive innovation.”

Source: Tomorrows Company (2016)

High profile media attention related to business ethics has raised added awareness and interest in matters concerning the purpose of the firm that encapsulates the shareholder/stakeholder debate. Recent examples of this media interest in business ethics include the case of Primark and the conditions of workers in Bangladesh resulting in deaths caused by a major fire (Gayle 2013); Nike's use of child labour (Lutz 2015) and the BP pollution of the Everglades (Koch 2010) along with others less well reported matters. These events have all

been instrumental in bringing to the surface the question that asks “What is the purpose of the firm?”

Handy (2002) addresses this matter in an article in the Harvard Business Review (HBR) which later appeared on the HBR web site stating, “We cannot escape the fundamental question, Whom and what is a business for?”. Handy’s comment aligns with the views of Tricker (2011), both of whom strike at the heart of the debate between the shareholder and the stakeholder approach. In so far as the UK’s Companies Act (2006) is concerned however, it would not be difficult to conclude that the overarching legal position is a *fait accompli* in favour of the stakeholder model. As to whether that legal position is translated into actions and behaviours by boards of directors is still nonetheless, open to question and interpretation (Tricker 2011).

Shareholder Theory

In contrast with the stakeholder, or so-called enlightened shareholder approach, Milton Friedman (1970) expresses a mechanistic, somewhat Machiavellian, (Howell and Letza 2000) view that the corporation is an entity designed solely to maximise profits for those who have invested in the business, taken on risk and as a consequence, should be adequately rewarded. Friedman (1970) adds that the actions and behaviours of agents must however be constrained to that allowed by law, but that acts involving charitable giving, community support, virtuosity and the likes are matters for individual shareholders and not for the corporation *per se*.

Within the current legal framework of corporate governance in the UK, one may reasonably assume that Friedman’s view carries limited currency and has been effectively superseded by the weight of contemporary thinking and the requirements of the Companies Act (UK Government 2006a, p.S172) which that states,

“A director of a company must act in the way he considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to—

- (a) the likely consequences of any decision in the long term,
- (b) the interests of the company's employees,
- (c) the need to foster the company's business relationships with suppliers, customers and others,
- (d) the impact of the company's operations on the community and the environment”

This obligation upon directors is contextualised as “Enlightened Shareholder Value” (ESV) and reflects the change of direction in the UK towards a stakeholder model of governance (Keay 2007). Letza et al. (2008) however, see the tension between the poles that are represented by an “*either or model*” of the Shareholder and Stakeholder Theories of the firm as a factor that limits an understanding of corporate governance and state that,

“the underlying assumptions of existing models and regulatory frameworks for governance are misplaced and it is suggested, with reason, that a pluralistic view and framework are better than the current dualistic approach to provide a better understanding of corporate governance in today’s dynamic business environments” (Letza et al. 2008, p.17).

In addition to rejecting the dyadic and binary nature of the shareholder/stakeholder debate, Letza and Sun (2004) state that a long-term perspective is required from boards of directors [that of necessity involves both step change and incremental change]; (author’s parentheses) and that shareholder activism should be a feature of any re-thinking of corporate governance in the modern corporation.

In view of the stance taken by Letza and Sun (2004) it could be claimed that they have positioned themselves in an ontological position based upon a processual model of corporate governance that has at its basis the notion of mutability, uncertainty and the acceptance of flux.

These ideas are grounded in a Heraclitean cosmological orientation that rejects stasis whilst embracing fluidity, an eternal sense of becoming and of perpetual invention and re-invention. This notion, of which Letza (2004) is a proponent,

moves from the idea of *governance to governing* and from *management to managing*. It also transfers the governance debate to an interpretivist perspective and from a noun to a gerund, thereby reflecting the dynamic and vigorous nature of the process that proceeds from the entitative to the reflexive and leans towards a mutual relationship with the firm that extends beyond the restrictions of ownership and contractual engagement.

Resource Dependency Theory

Moving away from what may be imprecisely described as “ownership” models, the basic premise of resource dependency theory (RDT) was expressed by Pfeffer and Salancik (1978) in their research related to the Tennessee Valley Association (TVA), in their article “The External Control of Organizations - A Resource Dependence Perspective”. Bryant and Davis (2012) state that RDT may best be seen through the lens of organisational power that is derived from a multiplicity of resources that in turn combine to create competitive advantage and hence contribute to both resilience and survival. They write,

“Organizational power, from this perspective, arises from the ability to cope with uncertainty and minimize uncertainty for other organizations, the control over scarce resources, and the substitutability of the controlled resources.”(Bryant and Davis 2012, p.6).

Pfeffer and Salancik (1978) view the role of the board as being dyadic in nature and fulfilling both an administrative function and an environmental linking responsibility. The role described by them as *administrative duties* is fulfilled through the provision of expert advice and counsel to the company’s managers, and the wider environmental role refers to a monitoring function and the exercise of oversight of executive managers. Contemporary attitudes however, concerning the duties and obligations of directors, would tend to consider this role as both limited in scope and limited in imagination (Ashraf 2012; 2013; Heenetigala et al. 2013; Institute of Directors 2016).

Whilst Pfeffer and Salancik’s (1978) book deals with a range of topics related to legitimacy, control, monitoring and oversight, Hillman et al (2009) claim that its greatest assertion is that directors enable firms to minimise dependence or gain

resources. Directors, they claim, are recruited to boards as a consequence of a particular knowledge or skill, their ability to lever finance or to gain entry to a valuable network. Hillman et al (2009) describe the various roles of directors within three categories as “business experts,” “support specialists,” and “community influential” (Hillman et al. 2009, p.1409) with each role corresponding to a particular resource that a director may bring to the board either singly or *en masse*.

Bryant and Davis (2012) emphasise an additional resource that NEDs in particular can provide especially “in regards of boundary spanning and environmental linking” (Bryant and Davis 2012, p.2).

Mace (1971) argues that this resource takes on a special significance in times of crisis where the role of directors becomes “operational rather than strategic and hands-on rather than supervisory” (Mace 1971, p.27). Mace also notes that managers frequently view such a role shift as both a threat to their own positions and as an unwanted interference with less than benign intentions at its inception.

Managerial Hegemony Theory

Managerial Hegemony Theory (MHT) exemplifies continuing focus on the internal roles of internal “agents” in corporate governance. Huse (2007) defines MHT as a descriptive theory that builds upon the work of Berle and Means (1932) and is closely linked to the practical consequences of the separation of ownership and control.

Managerial power, MHT claims, is based upon a multiplicity of sources, for example, control over board nominations (Kosnik,1987; Mace,1971), the limited time allocated to board work by non-executive directors (Patton and Baker 1987); greater expertise than that of the non-executive directors,(Finkelstein 1992) and the culture in the boardroom with its potential to subjugate the voice of non-executive directors (Mace 1971; Pettigrew and McNulty 1995). Accordingly, the CEO as the link between the board and senior management has the ability to influence the flows of information and exercise hegemonic power.

MHT posits that the board and its committees, where constituted, are under the control of managers and exist as little more than a fig leaf in order to fulfil a statutory requirement (Mace 1971; Kosnik 1987; Khlif 2015). Cornforth (1999) argues that whilst Agency Theory views boards of external directors as one mechanism to ensure managers act in the shareholders best interests, in contrast, MHT chronicles the rise of managers' authority in the Anglo-Saxon governance model and suggests that it is managers, not directors, who have the expertise, time and resources to influence and affect the normal operations of corporations. Commenting on this assertion, Stiles and Taylor (2002) conclude that whilst that the board is the *de jure* authority, it is managers that comprise the *de facto* governing body within the organisation. In this context, it may be argued that the role of the board is effectively what the CEO determines it to be.

Khlif (2015) however, offers a more interventionist view of the role of directors and claims that boards with little more than an affirming role can nevertheless add value through advice, debate and mediation.

Notwithstanding that the legally and formally ascribed processes offers primacy to shareholders in the election and re-election of directors, it may be reasoned that even the "*slate*", a shortlist of candidates proposed for election to the board, is developed by managers. MHT posits that senior management endorses and proposes like-minded individuals from a limited talent pool for scrutiny by the Nominations Committee and its subsequent recommendations for election as directors. The nominees, it may be argued, are those who are unlikely to limit or curtail the actions of managers. MHT goes on to aver that such directors, on their part, tacitly consent to be passive actors in the governance process, dependent on the company management for information and insights about the firm and its industry and act as little more than the holders of the rubber stamp. To this end, Epstein and Palepu (1999) found that 87% of business analysts believed that the board of directors allied themselves to the interests of senior managers inhabiting the C-Suite to the exclusion of other stakeholders.

This approach may be viewed as largely symbolic governance (Mace 1971; Stiles and Taylor 2002; Huse 2007) that has at its heart an ersatz board that meets regulatory requirements rather than fulfilling a substantial role in promoting the

success of the business, monitoring organisational change or providing meaningful oversight of management. Consequently, from a perspective of MHT, the board's functions are limited to such as ratification, compliance, and compensation.

Despite widely differing perceptions concerning the role of the board and managerial hegemony Cornforth (1999) points out that "there have been few studies that have managed to 'get inside the boardroom' and actually observe what happens there" (Cornforth 1999, p.2).

Institutional Theory

Institutional theory recognises the crucial nature of behaviourism and seeks to appreciate and understand the substance and antecedents of the interactions between different actors within corporate governance processes and structures (Lynall et al. 2003a).

The relevant and connected parties use, at times, symbolic systems and gesture, relational systems, routines, rituals, artefacts, garb and activities to maintain, support and embed the normative frameworks and rules that act as organisational bulwarks in guiding, inhibiting, and empowering behaviour (Marquis and Tilcsik 2016).

Both overt and subliminal institutional activities Scott (2008) categorises as "three types of ingredients that underlie institutional order: regulative, normative, and cultural-cognitive elements" (Scott 2008, p.428). Scott (2008) asserts that regulative elements underscore rule-setting, monitoring, and sanctioning activities whilst normative elements "introduce a prescriptive, evaluative, and obligatory dimension into social life" (Scott 2008, p.428). The third element, that of cultural-cognitive elements, emphasises the shared ideas that constitute a broadly accepted ontology and the structures through which and by which meaning is constructed.

Building on Scott's third element, Tricker (2011) notes the evolution of culturally-determined ideas that over time become integrated into the corporate DNA and

sees the word “meme”, coined by evolutionary biologist and leading humanist Richard Dawkins (2006), as being analogous to the replication of genes.

Dawkins references genes as the archetypal biological replicator and suggests that just as genes transmit coded information from generation to generation so memes act in a similar way, albeit that,

“the details may wander idiosyncratically, but the essence remains unmutated” (Dawkins 2006, p.193).

as replicators of ideas, beliefs, values and societal norms. In view of the above, such memetic influences are likely to comprise sub-elements, some of which may be defined as constituting a cocktail of benign, neutral and malignant phenomena with a concomitant implication for corporate governance that monitoring and managing cultural elaboration both within and beyond the boardroom becomes *de rigeur*.

Accordingly, Lynall et al (2003) suggest that by implication,

“organizations' quests for legitimacy and the process of structuration result in the homogenization of organizations with respect to their most visible attributes (e.g., board composition)”.(Lynall et al. 2003a, p.419).

Based upon Lynall et al. (2003), it could be construed therefore, that as board members tend to derive from similar backgrounds, they will accordingly adopt a normative mantle of structuration and a reluctance to challenge each other or the management (Cohen et al. 2008).

Such convergence of attributes may not however necessarily result in efficient organisations and can be viewed as the antidote to diversity and the bedfellow of groupthink.

Peters and Waterman (1982) note the danger of a such a homogeneous culture in their book, “In Search of Excellence”, and used terms such as “*mavericks*” and “*skunk works*” to describe attempts to create informal, counter-cultural sub-sets that would act as *agent provocateurs* in the pursuit of innovation and thinking beyond the prevailing norm.

It may therefore be argued that the culture of Cadbury’s so-called “somnolent boards” would have little in common with Foucault’s notion of *parrhesia*, the act of speaking truth to power, and that directors would be unlikely to transgress their ontological paradigm of acquiescence.

Huse (2007) offers a systematic summary of the various theories related to corporate governance and in a novel taxonomy he categorises them as comprising, “aunts, barbarians, clans” and finally, the somewhat more prosaic term of “value creation theories”(Huse 2007, p.50).

Table 3: Summary of Huses’ Board Theories

Barbarian Theories	Value Creation Theories
Agency Theory	Resource Dependency Theory/ Competence view of the firm
Stakeholder Theory; Stewardship Theory	Value Creation in the firm
Value creation for external stakeholders	
Aunt Theories	Clan Theories
Managerial Hegemony, Property Rights, Law	Institutional Theory and Social Network Theory
Value Protection, but no value creation	Value Creation internal actors and business elites

Source: Huse (2007) Boards, Governance and Value Creation: The Human Side of Corporate Governance

The terms relate to perspectives on corporate governance definitions and accountability whereby “Barbarians” are outsider actors and are independent of the managers; “Aunts” focus upon the formal elements of legal and structural board issues; “Clans” relate to social networks and the resultant social capital the arises therefrom and “Value Creation” refers to a Resource-Based View of the

board. Huse accepts, however that these groupings are contingent on a range of endogenous and exogenous factors.

The Role of the Board

The board is a pivotal element in the cocktail of endogenous resources that enable the company to function and, as such, the role of the board has been a central theme of research in corporate governance (Zahra 1989; van den Heuvel et al. 2006; Khlif 2015) with the literature referencing a multiplicity of roles, here identified as aggregated tasks, that boards of directors undertake in conducting the affairs of the business and in their decision making processes.

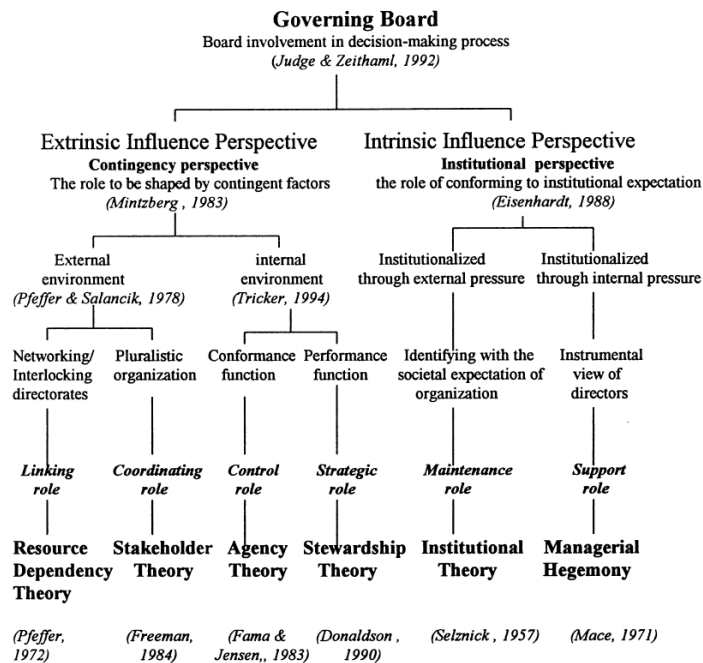
Nordberg (2011) states that the various roles of the board have developed more as a consequence of imitation rather than as a result of prescription. This, he claims, has led to a wide range of roles that are “often with overlapping and even conflicting aims and objectives” (Nordberg 2011, p.126).

Nordberg (2011) then goes on to specify four key board roles namely those of Setting Direction; Marshalling Resources; Controlling and Reporting, and finally, Evaluating and Enhancing.

These have some correspondence with the taxonomy proposed by Khlif et al (2015) that comprises four aggregated tasks relating to what they refer to as a Strategic Role, a Service Role, a Control Role and a Mediation Role.

Hung (1998), however, proposes a typology, see Figure 5, which is then developed in order to demonstrate six board roles, each of which pays particular heed to a relevant theory related to corporate governance. Hung (1998) then illustrates the relationships between two competing perspectives concerning the board that link to, on one hand, a view that believes board actions and decisions are contingent upon extrinsic factors, (Mintzberg 1983) whilst the opposite view points towards intrinsic factors as the key determinant of its decision making (Eisenhardt 1988).

Figure 5: Board Roles and Corporate Governance Theories



Source: Hung (1998) A typology of theories of the role of governing boards

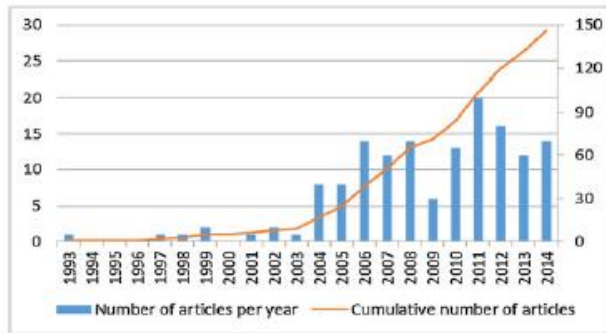
The major theories of corporate governance described above, and the associated aggregation of tasks that coincide with those theories, suggest a stasis and a sense of permanence. These theories are however contingent upon, and subject to, seismic shifts in perception with regard to not merely the role of the board, but the nature and purpose of the company itself, the socio-legal landscape and the vagaries of individual motivations reflected in a fluctuating “*sitz-im-leben*” (Donaldson 1990) that corresponds with pre-Socratic ideas of eternal change and becoming (Urmson and Ree 1992; Kahn 1999).

The literature suggests that as corporate governance moves ever closer to centre stage in the public discourse, it would not be unreasonable to assume that both incremental and step changes will occur in the way in which corporate governance, in its widest context, will be perceived from both a theoretical and practical perspective, not least of which may be the introduction of universal application coupled with proportionality according to size and complexity.

Codes of Corporate Governance

According to Cuomo et al. (2016) interest from researchers into codes of corporate governance has increased significantly since the early years of the 21st century. They state that in the year 2000 there were no articles published in academic journals on matters related to governance codes, compared with 2011 when over 100 papers were published see Figure 6.

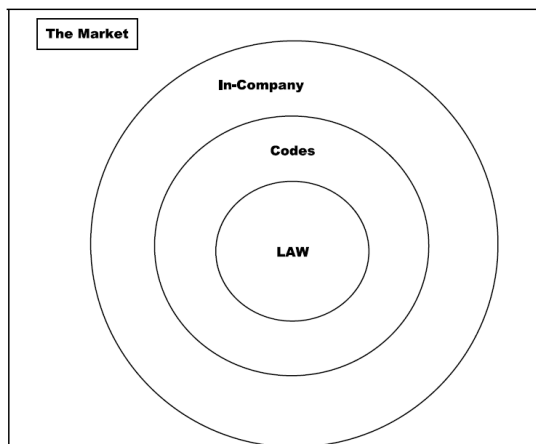
Figure 6 Evolution of Research on Corporate Governance Codes (1992–2014)



Source: Cuomo et al (2016)

Kirkbride and Letza (2003) state that corporate governance codes are at the interface between the legislative framework and company policies, see Figure 7, and provide a common model of best practice (Chizema 2008) designed to protect stakeholders and offer “openness, communication, involvement and anticipation” (Kirkbride and Letza 2003, p.481)

Figure 7: Onion Model of Corporate Governance



Source: Kirkbride and Letza (2003 p.482) Establishing the Boundaries of Regulation in Corporate Governance: Is the UK Moving Toward a Process of Collibration?

According to Chizema (2008), a corporate governance code is,

“a voluntary set of principles, recommendations, standards, or best practices, issued by a collective body, and relating to the internal governance of corporations within a country”(Chizema 2008, p.360).

Whilst Chizema (2008) defines a code as being “voluntary” and collibrational there are, *inter alia*, codes such as Sarbanes-Oxley that Anand et al. (2005) point out are mandatory with other codes inhabiting a continuum that varies from the quasi-coercive to the laissez faire. Anand et al (2005), and others (Cuomo et al. 2016) describe a global increase in the uptake of governance codes but note that in many instances, whilst the governance practice is entirely voluntary, the disclosure of a company’s business activities tends to be mandatory.

In contrast to Chizema (2008) whose definition reflects the control role of the board associated with Agency Theory, Haskovec (2012) defines a code as being allied to institutional theory as it references the norms and mores of the thinking and controlling mind of the business. He sees the board as,

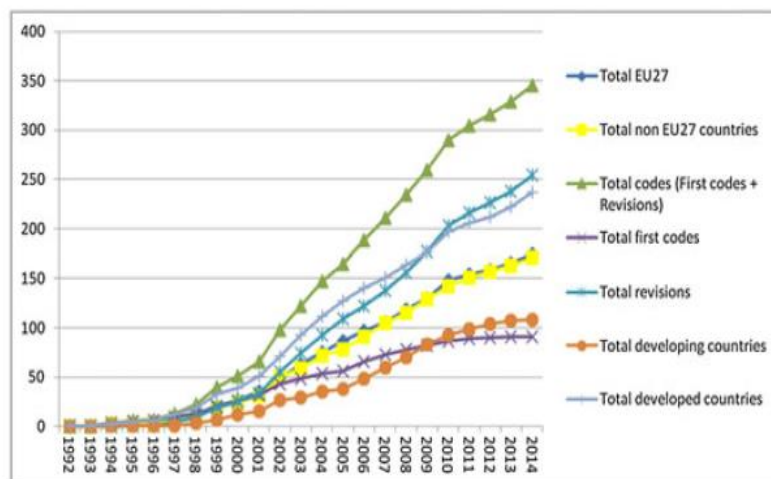
“a set of best practice recommendations with regard to the behaviour and structure of the boards of directors of a firm” (Haskovec 2012, p.7).

Despite differing emphases concerning the definition of a corporate governance code by both Haskovec (2012) and Chizema (2008), current debates related to both corporate governance theory and praxis in the UK and beyond, have been given expression via a variety of codes of practice. Emanating from the so-called Cadbury Report (Cadbury 1992) codification is now an omnipresent feature of the business landscape across jurisdictions albeit almost totally within the province of the public company (European Corporate Governance Institute 2015). Mallin (2004) points out that the Cadbury Report not only made a significant contribution to corporate governance in the UK but “had a fundamental impact on the content of codes across the world” (Mallin 2004, p.27) with The European Corporate Governance Institute (ECGI) listing 96 countries as having a total of 156 codes of corporate governance (European Corporate Governance Institute 2015). Cuomo et al. (2016) however, identify the existence of 345 codes, including 91

first versions and 245 revisions, 174 of which were issued by European countries, see Figure 8.

In addition, there are regional and international codes such as The Baltic States Code, the Organisation for Economic Cooperation and Development (OECD) Code, The Commonwealth Association Code, The International Corporate Governance Network Code, The Pan European Codes, The European Confederation of Director Organisations' (ECoDA) Guidance and Principles of Corporate Governance for Unlisted Companies and the United Nations Code (European Corporate Governance Institute 2015).

Figure 8: Diffusion of National Corporate Governance Codes (1992–2014)

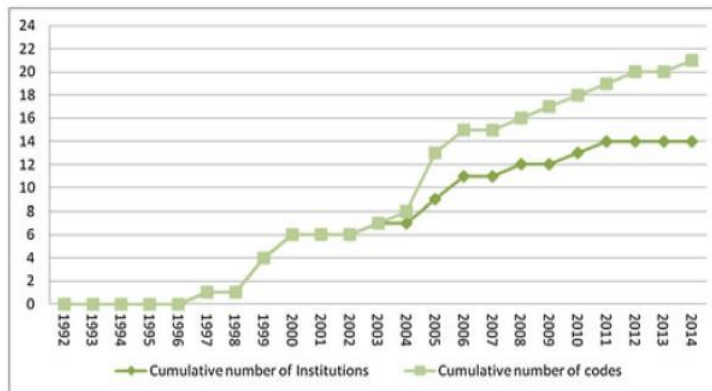


Source: Cuomo et al. (2016)

Cuomo et al (2016) identify both the growth in the number of transnational codes as well as the rise in institutions promoting such codes from 1992 until 2014, see Figure 9.

Codes pertaining to unlisted companies are still rare and carry little weight due to their voluntary nature and non-existent validation and monitoring.

Figure 9: Diffusion of Transnational Corporate Governance Codes (1992–2014)



Source: Cuomo et al (2016)

The question that emerges from the issuance of transnational codes relates to the culture of governance at a socio-political level, in addition to the nature of policies and practices in both national and local governance. How transmutable, for example, is a corporate governance code across jurisdictions and across cultures where social practices, political institutions and religious influences combine to create a unique society that has ethical and moral values peculiar to its national psyche? The issue may also take on differing perceptions according to trading patterns and scope of markets.

Several studies have tracked the growth of codes relating to corporate governance (Aguilera and Cuervo-Gazurra 2004; Wymeersch 2006; Nordberg and McNulty 2013; Cuomo et al. 2016) many of which extend beyond listed companies to small enterprises, family businesses and the third sector (Ansong 2013; Durst and Henschel 2014b; The Charity Governance Code Steering Group 2016).

Subsequent to the Cadbury Report and following a series of iterations, reviews and associated reports, The Combined Code and ultimately The UK Corporate Governance Code emerged, (Financial Reporting Council 2014). Above and beyond a core requirement of all codes, namely that of active engagement with current shareholders, UK legislation in the form of The Companies Act, 2006, resulted in the formalising of specific requirements related to the roles of Directors

and in so doing placed an onus on directors to take account of both existing and potential shareholders in line with a stakeholder model of corporate governance.

The UK Code of Corporate Governance contains a “comply or explain” clause that reflects the contingent nature of the code and allows for limited flexibility although compliance is an integral element within the London Stock Exchange Rules. Other than financial reporting matters however, boardroom behaviour suggests that regulatory and non-regulatory efforts may have had limited impact on the initiation of a change, defined by the author as an act or process through which a phenomena differs from its previous manifestation, in attitudes toward the adoption and enforcement of higher ethical standards by boards. (Holder-Webb and Cohen 2012; Nordberg and McNulty 2013).

Whilst the key drivers at the inception of codes of governance were largely concerned with shareholder protection from corporate failure, accountability and transparency (Aguilera and Cuervo-Gazurra 2004), more recent codes such as the 2016 edition of the UK Code of Corporate Governance and The OECD Principles of Corporate Governance adopt the language and tenor of a Stakeholder/Stewardship model (Brennan and Solomon 2008). The OECD code, for example, states that,

“The corporate governance framework should recognise the rights of stakeholders established by law or through mutual agreements and encourage active co-operation between corporations and stakeholders in creating wealth, jobs, and the sustainability of financially sound enterprises.”(Johnston 2004, p.46).

History and development of codes

It was those corporate failures and the resulting chaos that gave rise to codes that were, according to the Institute of Chartered Accountants in England and Wales (ICAEW), established “in response to continuing concern about standards of financial reporting and accountability” (Institute of Chartered Accountants in England and Wales). Spira (2013) supports the view that it was the aberrant behaviours of boards of directors and self-serving executives that prompted the development of codes. Nordberg (2011) however points out that the alternative

to codification would have been the imposition of legislation and, as such, it could be reasoned that for businesses a “comply or explain” protocol would be a preferable option to an additional administrative and compliance burden.

Aguilera and Cuervo-Cazurra (2004) argue that a dyadic relationship exists in the development of codes of corporate governance in that exogenous forces seek legitimation whilst endogenous forces seek to enhance efficiency and that, together, those twin drivers are the stimuli of code adoption. Aguilera and Cuervo-Cazurra (2004) claim that the endogenous forces lead to governance codes that reflect a deficiency in the legal system within a given jurisdiction, whereas the exogenous forces, they aver, seek to create systems that are socially legitimate and are regarded by stakeholders as effective constraints and safeguards. They add that the key impetus for change is however exogenous pressure which acts as a catalyst and facilitates change in an organisation where a culture of inertia dominates.

In his book “Corporate Governance and Chairmanship: A Personal View”, Sir Adrian Cadbury refers to the culture of inertia in terms of “somnolent boards” (Cadbury 2002, p.8) as being the norm during the years after the conclusion of the Second World War where he claims that poor performance and little accountability to shareholders is the default position. It is possible therefore to conclude that, whilst there was more heat than light in the debate that eventually led to change, that change was laborious in both the conception and the gestation.

The “Cadbury Committee” was established in May 1991 by way of response to institutions calling for more accountability, reliability in reporting and a high standard of corporate governance in the light of well publicised corporate scandals such as the Polly Peck, Maxwell and BCCI affairs in addition to burgeoning levels of executive remuneration (Cadbury 1992, p.9; Kirkbride and Letza 2003; Aguilera and Cuervo-Gazurra 2004; Nordberg and McNulty 2013). The three sponsoring bodies of the report, a mixture of an investor association, a stock exchange and a professional association, respectively The Financial Reporting Council, The London Stock Exchange and the accountancy profession, with UK Government backing, asked Sir Adrian Cadbury to chair a committee of,

according to Seidl (2006), self-proclaimed expertise, to examine financial reporting and accountability and to offer recommendations on good practice on various matters relating to corporate governance. These included, amongst others, director responsibilities for reporting performance to shareholders and other interested parties; the case for audit committees; the responsibilities of auditors and their links with boards and “any other matters”.

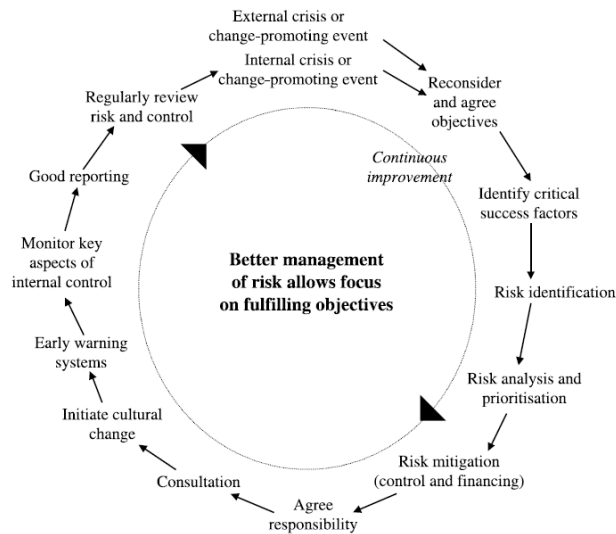
Whilst the impetus for the Cadbury Report came from financial institutions, the Institute of Directors (IOD) and Confederation of British Industry (CBI) were only represented in a personal capacity despite the fact that members of both bodies would be those charged with code implementation post publication.

Further committees were convened after Cadbury concluded its work, the first of which was the so-called Greenbury Committee that examined the setting and disclosure of director’s remuneration. “Greenbury” was followed by the Hampel Committee that developed a combined code incorporating the work of both Greenbury and Cadbury. Some six years following the publication of the Cadbury Report, The Combined Code was published in June 1998 bringing together a flotilla of governance reports and, with a staged implementation programme, became fully effective in late December 2000. A key tenet of the code was that of “comply or explain” which, in the opinion of Dewing and Russell (2000) provided a “get out of gaol” card too readily. Additional work on internal financial control was undertaken by the Turnbull Committee that reported in September 1999 and that Kirkbride and Letza (2003) describe as “a watershed” stating,

“as for the first time in all the investigations into the practice of corporate governance in Britain risk is specifically included and articulated”.
(Kirkbride and Letza 2003, p.474).

Figure 10 below demonstrates the cycle that Kirkbride and Letza (2003) see as linking corporate governance with risk and managing and mitigating of crises.

Figure 10: Linking Corporate Governance, risk and crises



Source: Kirkbride and Letza (2003 p476) Establishing the Boundaries of Regulation in Corporate Governance: Is the UK Moving Toward a Process of Collibration?

Turnbull appreciated the importance of culture as a factor in risk management and in so doing moved close to a holistic or collibrational view of risk management. Pursuing the time-line of code development, Derek Higgs examined the effectiveness of Non-Executive Directors (NED's) in 2003 together with an updating of The Combined Code, whilst at the same time Sir Robert Smith's committee was developing revised guidance for Audit Committees within the context of the Combined Code.

In 2004, Paul Myners chaired a committee that reported after considering the way in which financial institutions invested in non-listed companies. Five years later, The Walker Committee convened in 2009 to examine the financial crisis and the role of institutional investors, resulted in the publication of the Stewardship Code. In 2014 the UK Corporate Governance Code with its 18 main principles was published and remains the subject of regular review and updating.

In spite of the growth in codification, Nordberg and McNulty (2013) suggest that the evidence as to the efficacy of codes relating to improved performance is inconclusive, yet nevertheless the ubiquity of codes is such that they are now institutionalised, affording at the same time, both constraints and legitimacy as a

consequence of adherence. Nonetheless, despite two decades of code development, Nordberg and McNulty (2013) conclude that, “the goal of better boards remains elusive.”(Nordberg and McNulty 2013, p.349).

Whilst the undoubted focus of the UK Code of Corporate Governance is the listed company, within a section of the Cadbury Report entitled “The Code of Best Practice” there is an overt desire to see the adoption of the code beyond its primary constituency. The report states,

“The Code of Best Practice (on pages 58 to 60) is directed to the boards of directors of all listed companies registered in the UK, but we would encourage as many other companies as possible to aim at meeting its requirements.” (Cadbury 1992, p.16).

In contrast with the Cadbury Report, practitioner organisations such as the ACCA, (ACCA. 2015) realised that universal application of the code is unlikely to receive a great welcome from the serried ranks of SMEs who would be likely to view it as another needless and irrelevant bureaucratic intervention in its current form (Clarke and Klettner 2009; Gibson et al. 2013).

Shifting its focus away from listed companies, the IOD, in association with The European Confederation of Director Associations (ECoDA) published “Corporate Governance Guidance and Principles for Unlisted Companies in the UK”. This Code was launched in November 2010 and includes many of the elements contained within the “Buyse Code 2” first published in Belgium in 2005, and specifically directed towards companies that are unlisted as defined by the Belgian Companies Code. The “Buyse Code 2” states that in the implementation of the code, “Particular attention should be paid to the nature, size and growth phase of the enterprise” (Buyse 2009, p.7) thereby suggesting that a homogenous approach towards would be inappropriate and, by extension, unworkable and irrelevant.

This point is further developed in “Corporate Governance Guidance and Principles for Unlisted Companies in the UK” which places an emphasis upon the need for an “*appropriate*” code for unlisted companies and, contradicting Cadbury, tacitly acknowledging that “one size does not fit all” but nevertheless

enshrining the principle of encouragement, encapsulated in the Cadbury Report, rather than one of compulsion. In a briefing document, the Institute of Directors states,

“It also presents a set of governance principles that can be followed or not. This remains a voluntary decision of each unlisted company”. (Institute of Directors 2010, p.6).

Unlike the UK Code of Corporate Governance, the code for unlisted companies is loose fit and there is no requirement to either “comply or explain” and the word “appropriate” suggests a contingent approach such that board of an unlisted company can modify, adapt and incorporate elements of the code as it sees fit. Leblanc et al (2012) support the view that small and medium sized enterprises require a governance regime that is neither “stifling nor burdensome” and that across Europe the ECoDA principles “should be implemented in a way that is both proportionate and realistic”(Leblanc et al. 2012, p.6). Leblanc et al’s endorsement of the ECoDA/IOD principles of governance for unlisted companies would appear to be a positive indicator as to its efficacy. Although there is an alternative and competing code developed by The British Standards Institution, the evidence of a broad consensus as to the value and impact of codes for unlisted companies is scarce and offers opportunities for further research.

Purpose of Codes

Codes establish processes and procedures designed to bring about a means by which boards of directors could effectively transact their business to a standard set by peers; a standard that for many would become progressively prescriptive albeit without the authority and consequences of jurisprudence. It can be claimed that such prescriptions do however encounter limits related to the spirit, rather than the letter, of the code resulting in furthering the debate on board behaviours and ethics beyond merely the transactional and functional aspects of governance (Holder-Webb and Cohen 2012).

The theme of non-statutory, collibrational governance is taken up by Haskovec (2012) who states that codes are “meant to begin where the law stops”. Codes have been described as “soft standards” (Haskovec 2012, p.8) rather than a set

of rigid and prescriptive requirements based upon legislation with a concomitant threat of prosecution for non-observance. The use, therefore, by the OECD and by ECoDA of the term “Principles” points towards acceptance of the purpose of a code as that of offering a flexible framework within which boards of small companies may operate and a benchmark to evaluate performance that is both transparent and meaningful (Institute of Directors 2010).

Content of Codes

According to O’Shea (2005) a code of good governance can be thought of as an implement stipulating a set of best practice policies and procedures designed to address defects in the corporate governance structure and to enhance the company’s long term success. Although he would appear to omit reference to the board’s specific obligations towards shareholders, O’Shea (2005) adds that most codes contain recommendations, see Table 4:

Table 4: Core content of Corporate Governance Codes

Posture	Evidence
Pro-active engagement	a strong, involved board of directors
Composition	a balance of executive and non-executive directors, including independent NEDs
Power distribution	clear division of responsibilities between the chairman and the chief executive
Communication	timely, quality information for the board
Processes	formal, transparent procedures for the appointment of new directors
Openness	Balanced, understandable financial reporting
Resilience	maintenance of risk oversight and internal control

Source; Author, with reference to O’Shea (2005)

In contrast, and again following O'Shea (2005), the OECD Principles address five general areas related to governance that give primacy to the obligations and duties towards shareholders, see Table 5.

Table 5: OECD Principles of Corporate Governance

Posture	Evidence
Externality	Shareholder rights and ownership
Equity	Equal treatment of all shareholders
Community	The role of stakeholders in corporate governance
Openness	Disclosure and transparency policies
Tasks	The role and responsibilities of the board

Source: Author, based upon OECD Principles of Corporate Governance

A brief examination of each of the five postures and the associated evidence that supports the posture sheds light upon the core principles the code is seeking to promote as representing a normative approach to the effective corporate governance of publicly traded corporations.

Externality – The OECD code accepts that there is no single model of corporate governance and that the code seeks to embrace a range of models across the globe. The code is not overly concerned with internal process but has the shareholder and investor's interests at its focus when it states that its purpose is to foster,

“a sound legal, regulatory and institutional framework that market participants can rely on when they establish their private contractual relations” (OECD Code 2015, p13).

This theme of externality is further developed when the code states that,

“The corporate governance framework should be developed with a view to its impact on overall economic performance, market integrity and the

incentives it creates for market participants and the promotion of transparent and well-functioning markets”. (OECD Code 2015, p14).

Equity – The OECD code is unequivocal in its view of the rights of shareholders stating,

“The corporate governance framework should protect and facilitate the exercise of shareholders’ rights and ensure the equitable treatment of all shareholders, including minority and foreign shareholders. All shareholders should have the opportunity to obtain effective redress for violation of their rights.” (OECD Code 2015, p18).

The OECD code devotes 10 pages to the rights of shareholders and specifies in detail the arrangements that need to be in place to meet the requirements of the code in respect of such as consultation on critical issues of strategy and fund raising, voting procedures, anti-takeover measures, disclosure, audit, minority shareholders, conflict of interest matters and capital structure.

Community – The OECD code recognises that there are others beyond principals and agents who have legitimate interests in the company and as such need to be recognised and considered within the overall process of governance. In support of this principle that embraces the stakeholder model in both a legal and collibrational context, the code states,

“The corporate governance framework should recognise the rights of stakeholders established by law or through mutual agreements and encourage active co-operation between corporations and stakeholders in creating wealth, jobs, and the sustainability of financially sound enterprises.” (OECD Code 2015, p34).

Openness – The OECD code recognises that disclosure and openness need to be balanced with the requirement for commercial confidentiality and effected at a reasonable cost to the business. It states that disclosure requirements are not expected to place unreasonable administrative or cost burdens on enterprises, nor are companies expected to disclose information that may endanger their

competitive position unless disclosure is necessary to fully inform the investment decision and to avoid misleading the investor. The specific principle states,

“The corporate governance framework should ensure that timely and accurate disclosure is made on all material matters regarding the corporation, including the financial situation, performance, ownership and governance of the company” (OECD Code 2015, p37).

Tasks – The role of the board and director duties are a feature in all codes whether national or trans-national (ECGI 2015). The OECD code specifies these roles stating that,

“The corporate governance framework should ensure the strategic guidance of the company, the effective monitoring of management by the board, and the board’s accountability to the company and the shareholders. (OECD Code 2015, p45).

The code follows a prescriptive approach in its call for directors to behave in such ways that would be deemed as ethical and located within a fiduciary relationship with the company itself. It is also prescriptive in outlining the specific tasks required of directors that include reviewing and guiding corporate strategy, major plans of action, risk management policies and procedures, annual budgets and business plans; setting performance objectives; executive remuneration, nominations and committee structure, monitoring implementation and corporate performance; as well as overseeing major capital expenditures, acquisitions and divestitures.

Thus, within the 54 pages of the code there is a narrative as to what corporate governance should look like, what it should do and how those charged with its implementation should behave. There are however, a number of questions that follow from these onerous requirements concerning firstly, the adequacy of the time allowed for (mainly non-executive) part-time directors to carry out the tasks to a satisfactory standard given they may work just two days a month in the company. For example, The 2016 Annual Report of J Sainsbury plc shows that if the NEDs attended every board and the sub-committees of which they are members the maximum days commitment would be fifteen although the report

adds that other meetings with executive directors do take place from time to time(J Sainsbury plc 2016, p.53). Secondly, as the board is guided and informed by a process that is mediated through the CEO the question must be asked as to how it is possible for independent directors, whose information is also mediated, to act as both pilot and watchman in any meaningful way?

The OECD code mentions leadership only once (on page 29) which contrasts with the UKCGC where the word leadership is mentioned eight times and is far more explicit in its calls for the board to provide a leadership role than is the OECD code. There is a widespread view that a board without leadership is sub-optimal. Standards for the Board, published by the Institute of Directors, specifies the leadership role of the board stating, “The board should exercise leadership, enterprise and judgement combined with prudent control” (Institute of Directors 2002, p.23). Nordberg (2011) describes these multiple roles as “the steering wheel, the brake and the accelerator” (Nordberg 2011, p.7). The IOD adds that quality and integrity of an independent chairman is an essential ingredient in ensuring effective leadership that contributes to successful corporate governance in practice(Institute of Directors 2010).

Dutra (2012) states that,

“The definition of board effectiveness has shifted dramatically over the past decade. In the aftermath of the global financial crisis and numerous corporate scandals, a director now confronts not only complex oversight accountability, but also personal risk and liability” (Dutra 2012, p.1).

In research conducted to re-define board effectiveness, Dutra found that boards tend to progress from good-to-great along a four-phase continuum: 1) foundational, 2) developed, 3) advanced, and 4) strategic. Dutra uses Maslow’s Theory of Needs to demonstrate the move from a transactional board that fulfils legal obligations to board that is transformational and functions in a self-actualising capacity.

The literature on board effectiveness is considerable and diverse and the expression itself is well established in the literature as a keyword or term of reference. A search for “board effective*” yields 5,343 academic papers

published between 1992, the year of the publication of the Cadbury Report, and July of 2018. In theorising board effectiveness, Nordberg and Booth (2017) suggests that boards differ from conventional groups not only in their size (typically a dozen or more) which is larger than operational workgroups, but they have distinct characteristics. Forbes and Milliken (1999) suggest that they tend to be,

“large, elite, and episodic decision-making groups that face complex tasks pertaining to strategic-issue processing”. (Forbes and Milliken 1999, p.492).

Due to the nature of the role of the board as the thinking and controlling mind of the company and the personal risk that directors face, as mentioned by Dutra (2012), the board, not only as a matter of good practice, but as a matter of self-interest must adopt a measure of self-reflection and introspection in assessing its effectiveness through evaluation whether internally or externally conducted. In determining what effectiveness means in practice, the UKCGC is specific in its guidance concerning the “comply or explain” principle. The full requirements of the code regarding the criteria for effectiveness are contained in Appendix 13.

In assessing board effectiveness, Nordberg and Booth (2017) warn of the limitations of relying on structures and board composition elements in understanding effectiveness of boards and draw attention to the social skills of directors as being of particular importance. Johnson, Schnatterly, and Hill (2013) call for more attention in research to human and social capital of directors as determinants of board effectiveness. Kim and Cannella (2008) for example, suggest that social capital is an important factor in director selection as it contributes to later board effectiveness. Nordberg and Booth (2017) add that these are elements that are much more difficult to assess with publicly disclosed information. [Having participated in some 500 board meetings, this corresponds with the authors view concerning the poorly understood dynamics of personal interactions and power politics that are ever-present within the boardroom and the influence of behaviours and social capital upon board cohesion.]

The primary duty of the board is towards the company itself although the Companies Act 2006 specifies a wide variety of constituencies to whom the directors are accountable beyond those it bears internally. The UKCGC requires boards to “present a fair, balanced and understandable assessment of the company’s position and prospects” (UKCGC 2016, p5).

The remainder of the section of the code dealing with accountability refers to risk management and calls for the board to determine “the nature and extent of the principal risks it is willing to take in achieving its strategic objectives” (UKCGC 2016, p5).and to engage in the exercise of internal control principles and to maintain an appropriate relationship with the company’s auditors, thus reflecting concern at the cosy relationship [see Arthur Anderson and Enron] that has at times existed between auditors, who act on behalf of shareholders, and boards of directors and who “remain the most important of the outside voices in corporate governance” (Nordberg 20011, p56).

In common with the OECD code, the 2016 version of the UKCGC code contains references to accountability and openness see Table 6.

Table 6: Core Content of UK Corporate Governance Code 2016

Posture	Evidence
Section A: Leadership	The Board should ensure long-term success of the company
	There is a clear division of responsibilities of the chairman and the CEO
	Executive directors should constructively challenge and help develop proposals on strategy.
Section B: Effectiveness	The board and its committees have appropriate balance of skills, experience, independence and knowledge
	Formal procedures are in place for the appointment of new directors
	Directors should allocate sufficient time to discharge their responsibilities effectively
	All directors should receive induction on joining the board and should regularly

	update and refresh their skills and knowledge
	Board is supplied in a timely manner with information in a form and of a quality appropriate to enable it to discharge its duties
	The board should undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual directors
	Re-election of directors take place at regular intervals, subject to continued satisfactory performance
Section C: Accountability	The board must give a fair assessment of the company's position and prospects
	The board is responsible for determining the nature and extent of the principal risks it is willing to take in achieving its strategic objectives
	Establish formal and transparent arrangements regarding corporate reporting, risk management and internal control principles and maintain an appropriate relationship with the auditors
Section D: Remuneration	Remuneration to promote long-term success
Section E: Relations with shareholders	There should be a dialogue with shareholders based on the mutual understanding of objectives

Source: Author, reference (Financial Reporting Council 2016, pp.5-6)

Whilst the essence of the UKCGC bears close resemblance to many other codes across the globe, an analysis of the balance of recommendations within the UK code reflects the various board roles of control, service, strategy and mediation (Khelif 2015) as illustrated, see Table 14.

Whilst the development of codes has been on a steep trajectory since the early 1990's, the focus of those who devise, manage, monitor and amend the codes has been the large corporation. The following section of this review goes on to consider the applicability and relevance of corporate governance in the small company with an assumption that "pret-a-porter" is neither viable nor desirable.

Table 7: Board roles and functions

Role/Function	Leadership	Effectiveness	Accountability	Remuneration	Shareholder
Control Role (conformance and regulatory compliance)	Duality	Information supplied timely. Board appointments and re-election	Risk oversight Internal Control Corporate reporting	Determination of remuneration	
Service Role resources to the board and offers advice and counsel)		Evaluation Induction and Skills updating Skills, Time Independence Knowledge and experience			
Strategic Role (contribution based on skills and experience)	Promote long terms success and contributes to strategy				
Mediation Role (competing claims between organisation and external)					Dialogue with shareholders

Source: Author, with reference to Khlif (2015)

Corporate Governance and Risk

A universal element contained within corporate governance codes is that of risk management. Nordberg and McNulty (2013) state that codes came about in response to crises that were in turn precipitated through failures in risk management that include executive excess, accounting and audit weaknesses and strategic blunders (Nordberg and McNulty, 2013) all of which may be

reasonably characterised as failures of governance. Such an assertion suggests that the authors, *inter alia*, (Kirkbride and Letza 2003; Joshua and Charles 2007; Moore and Juenemann 2008; Henschel et al. 2012; Smith 2012; van Essen et al. 2013; Stein and Wiedemann 2016) perceive a causal relationship between governance and risk and between risk and governance. According to Ellul (2015) there is a dearth of research in this area. stating that, “significant gaps exist in our understanding of the risk management function and how it relates to governance structures”(Ellul 2015, p.2).

Furthermore, and moving away from the quoted company, Gao et al.(2013) and Falkner and Heibl (2015) point to significant gaps in the literature with regard to risk in small companies in particular. Falkner and Heibl (2015) claim that many small companies are specifically at risk as,

“they do not – or not adequately – apply risk management practices, mostly because they cannot afford to rededicate resources because of their constraints” (Falkner and Heibl 2015, p.123).

Following their study of 80 small companies in the Slovak Republic, Sira et al (2016) argue that in spite of the resources issues related to implementation, “wider use of risk management in smes will decrease business failure” (Sira et al. 2016, p.71).

The standing attached to effective corporate governance as the umbrella under which risk is managed and controlled is reflected as a universal requirement within codes of governance and is an essential part of the World Bank’s International Finance Corporation (IFC) requirements for good governance in family businesses (International Finance Corporation 2011).

A sampling of the 156 corporate governance codes featured on the website of the European Corporate Governance Institute (European Corporate Governance Institute 2015) shows that risk awareness and risk management is the *sine qua non* of corporate governance that concurs with notions of best practice within codes pertaining to every region of the world. The IOD stress the linkage between effective corporate governance and managing risk when it states that,

“...managing risk is an essential aspect of good corporate governance today. Surprisingly, however, many still fail to do so, [and] some remain blissfully unaware of the nature of the risks they face.”(Malachowski 2006, p.5).

Van der Walt and Ingley (2008) and Belinskaja and Velickiene (2015) examine the issue of risk from an exogenous view and draw attention to the volatility and complexities of the business environment postulating that the role of the board in risk oversight (and management) is critically important. Van der Walt and Ingley (2008) go on to identify the quintessential tasks of the board's as being those of oversight, monitoring and challenging management decisions and the associated risks. Raber (2003), likewise, views risk management as an umbilical of corporate governance, and defines it as,

“the systematic process of handling an organization's risk exposure to achieve its objectives in a manner consistent with public interest, human safety, environmental factors, and the law” (Raber 2003, p.11).

Raber (2003) further contends that it is a prime responsibility of the board to exercise risk oversight and review management's plans for risk management as an integral component of a directors' fiduciary duty of care. Whilst, Bostrom (2003), for example, moves beyond the legal requirement of fidelity with regard to risk oversight and stresses the necessity to embrace additional moral and ethical obligations, writing,

“managing risk and corporate governance at the board and management level is critical. It creates a clear message that these issues are not just legal requirements but ethical and cultural imperatives as” (Bostrom 2003, p.21).

The UK Office of Government Commerce (OGC) also stresses the need for a cultural and ethical dimension concerning risk management. The OGC state that a more formalised approach to risk management, see Table 8, has been due in large measure to a greater focus on corporate governance as a consequence of questionable behaviours and managerial failure.

Table 8: Determinants of effective risk management

Elements	Responsibility	Identifier
External Influences	NEDs	Robust financial controls
Scrutiny	Internal Risk Committee	Regular reviews of risk
Strategic perspective	Board	Risk Register/Action Plan
Culture	Board/Senior Managers	Polices and Ethics
Capabilities	Board/Senior managers	Competence framework

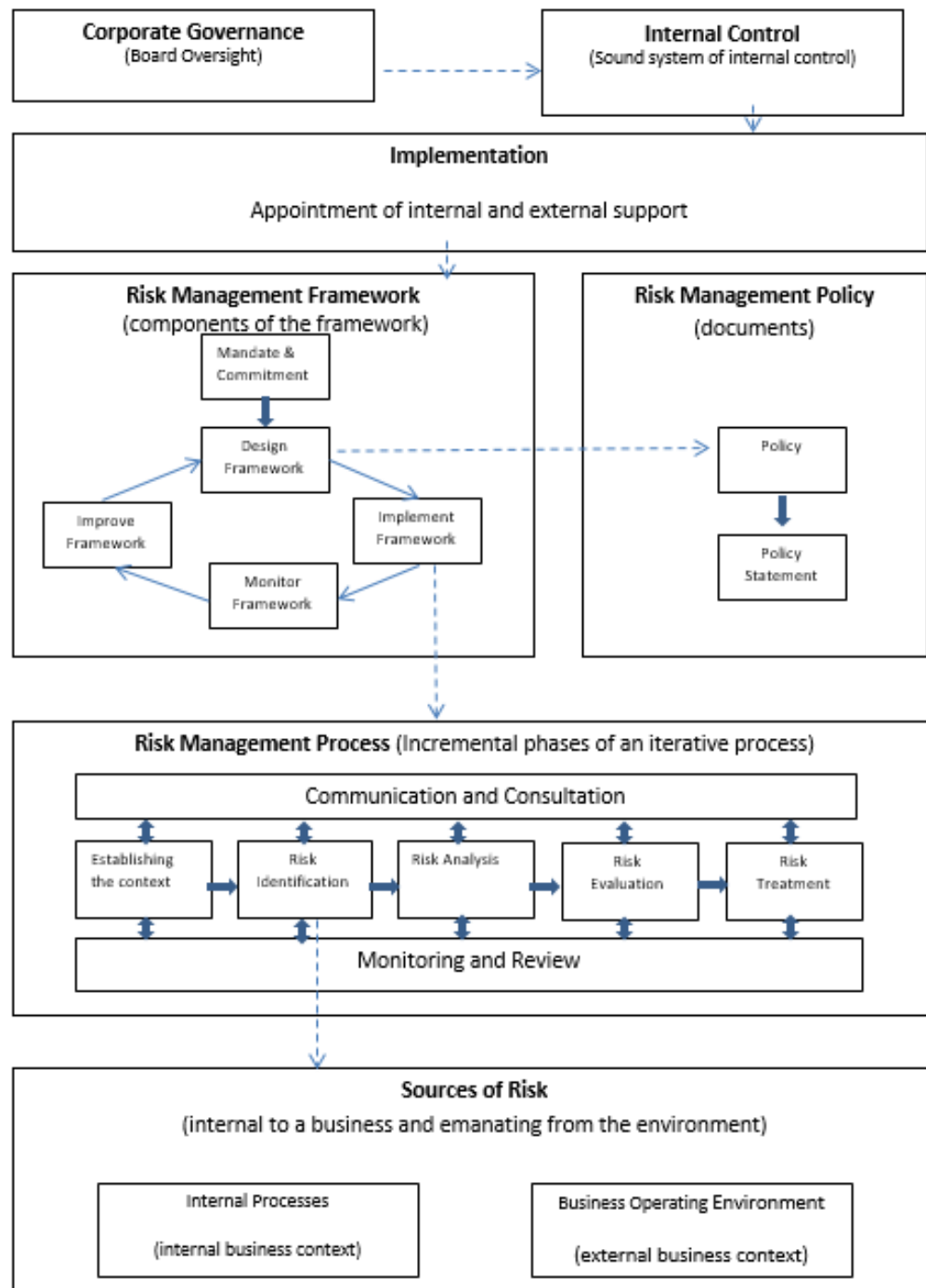
Source: Author, with reference to Management of Risk: Guidance for Practitioners, UK Government (2007)

Chapman (2013) summarises the issue stating that,

“For any business, governance means maintaining a sound system of internal control....[and] the appropriate management and control of risks” (Chapman 2013, p.19).

Chapman's model (Chapman 2013, p.13) illustrates the links between corporate governance and risk, see Figure 11, and places corporate governance as the essential impetus relating to oversight and internal control, both of which are advocated as pre-requisites of effective corporate governance by the plethora of reports (Cadbury, Greenbury, Hampel, Turnbull) that gave rise to the UK Corporate Governance Code and acted as the stimulus for the production of codes relating to corporate governance in smaller companies.

Figure 11: Linking Corporate Governance with Risk Management



Source: Chapman (2013) Simple tools and techniques for enterprise risk management

One such code of practice designed for use by small companies is BSI PD 6668:2000, Managing Risk for Corporate Governance, which contests that risk is

an essential ingredient of corporate governance adding that it is not the preserve of large corporations but applies equally to smaller companies. In a multiplicity of risks, the standard considers reputation risk, a critical concern of small companies, and identifies diminishing of organisational credibility as having “catastrophic effects in the short term and long term”. (British Standards Institution 2000, p.19).

Janney and Dess (2006) align with the BSI code and state that risk is a multifaceted concept containing polysemic meanings, some of which are appropriate only in a specific risk context that can be viewed as one of a trio of high level themes viewing risk as a variance, as a downside loss or in a positive denotation, as being an opportunity-driven phenomenon.

Belinskaja and Velickiene (2015) however conclude that

“risk is defined and measured in different ways - but that one unanimous definition of risk cannot be offered”(Belinskaja and Velickiene 2015, p.32).

In common parlance however, the word “risk” normally refers to situations in which some undesirable event may occur (Hopkin 2013). Beyond its everyday usage, the word has several more specialised uses and meanings that are context specific within particular disciplines such as finance, insurance, medicine and engineering (Stanford Encyclopaedia of Philosophy 2011).

The On-Line Oxford English Dictionary (OED) (OxfordDictionaries. 2016) however chooses to define risk as both noun and verb in that it can be either a phenomenon or an undertaking.

With a lack of agreement in the literature concerning the nature of risk, see Tables 9 and 10 that contextualise risk and offer evidence by way of descriptors to illustrate the diverse nature of the term all of which have relevance to businesses.

Table 9: Context and Descriptors of Risk

Contents	Descriptors
Potential for harm	A situation involving exposure to danger
No pre-determination	The possibility of an unwanted event which may or may not occur
External trigger	A person or thing regarded as a threat or likely source of danger
Loss with limitations	A possibility of harm or damage against which something is insured
Positive or negative outcomes	A person or thing regarded as likely to turn out well or badly in a particular context or respect
Pecuniary impacts	Possibility of financial loss

Source: Author based upon OED

Belinskaja and Velickiene (2015) suggest a risk classification that divides business risks into three distinct groupings, see Table 10.

Table 10: Business Risk Distribution

Speculative Risk	Investment risk; Yield reduction risk; Inflation risk; Deflation risk; Currency exchange risk; Liquidity risk; Interest rate risk; Market risk; Selective risk
Partly Speculative Risk	Political or country risk; Legal risk; Operational risk; Risk of loss of profit; Commercial risk; Bankruptcy risk; Credit risk; Systematic risk; Export credit risk.
Pure Risk	Property risk; Production risk; Natural disasters; Personal risk; Civil liability risk; Third party liability risk.

Source: Belinskaja and Velickiene (2015)

Whilst their paper used trading SMEs in Lithuania as its focus, it may be argued that some risks are included that would be unlikely to affect all but the larger

SMEs and such risks would be on the outer periphery of the directors' concerns when considering likelihood and impact.

Jaeger (2010) alludes to the matter of context in determining what he describes as the "definitional maze that has grown up around the concept of risk" (Jaeger 2010, p.14) and argues persuasively that within socio-ecological systems there are grammars that enable participating actors to make a distinction between risks that are "normal state" or "emergencies". Jaeger (2010) uses the example of a child cutting his sibling with a knife at dinner as being likely to trigger an emergency, whilst the surgeon cutting the skin of a patient is regarded as a normal, everyday event. This point illustrates the salient feature of context within the risk management literature that is concerned with perturbations and their impact at differing magnitudes from, for example, a small house fire affecting one family to raised sea levels around the world that threaten to eliminate a population. Thus, risk as a negative event can simultaneously infiltrate from the domestic context to a global plane.

The Institute of Risk Management (IRM) and the Office of Government Commerce (2007) (OGC) both state that one common method that can be used to gauge the impact of a possible negative event is the product of its probability and some approximated measure of its severity – likelihood multiplied by potential impact (Institute of Risk Management 2002; Office of Government Commerce 2007). Whilst news media frequently use the number of killed or injured persons as an indicator of the gravity of an incident (Reuters 2016) or an extreme weather event (Leathead 2015) this may be viewed as mono-dimensional and failing to reflect a holistic perspective in the context of business perturbation.

According to Brustbauer (2016), a paradigm shift has occurred in recent times regarding the holistic nature of risk management. Rather than evaluating risks from an individual perspective, there is a shift towards a wider and more universal perspective – known as enterprise risk management (ERM). The aim of this holistic framework is the "identification, assessment and monitoring of all threats and opportunities facing a company" (Brustbauer 2016, p.71).

Despite most risks and their aftermaths occurring within the business sphere being of a prosaic nature, Helsloot (2011) claims that it is cataclysmic extreme natural events that dominate the public perception of risk. Fraley (2010) writes that for some three hundred years, tort law has included such risks as emanating from so-called Acts of God - events unanticipated by humans - that are usually applied to extraordinary demonstrations of the forces of nature in the form of tsunamis, earthquakes, hurricanes, meteorite strikes and volcanic eruptions. Fraley (2010) goes on to state that as understanding and appreciation of the nature of the cosmos, climate and geological activity has changed, in much of the world causality has moved beyond the realm of the supernatural and of malevolent intent and pernicious intervention by the hands of distant, invisible deities. Although, whilst Gundel (2005) views climate change as a risk attributable to humans, he nevertheless reverts to a non-rational posture and chooses to describe a tsunami as an act of a god (Gundel 2005a). The literature more generally now refers to such phenomena as Natural Hazards (Krausmann 2016) or Extreme Weather Events (Wedawatta 2010) and is deep-seated in the school of hermeneutic phenomenology that is closely associated with Heidegger's observations on vision, distance and dwelling (Kafle 2011).

Hopkin (2013) accepts the premise that risk is normally associated with negative outcomes and adverse consequences but that risk-taking in business can be a function of the entrepreneurial and innovative, both of which are linked to optimistic and positive consequences (Hopkin 2013). However, his book, in common with the literature, proceeds on the basis that a risk is a term widely associated with negative outcomes.

The Stanford Encyclopaedia of Philosophy (2011) states that risk is associated with a decision that is reached based upon a range of probabilities that are known, rather than a decision made on the basis of uncertainty. The risk based upon known probabilities can be described as a calculated risk and can refer to either a subjective probability as well as an objective component (Stanford Encyclopaedia of Philosophy 2011). It would appear therefore, that the relationship between the notions of "risk" and "uncertainty" corresponds with

ideas of “truth” and “belief” thereby making issues of risk especially complex from an epistemological perspective.

High Reliability Theory (HRT)

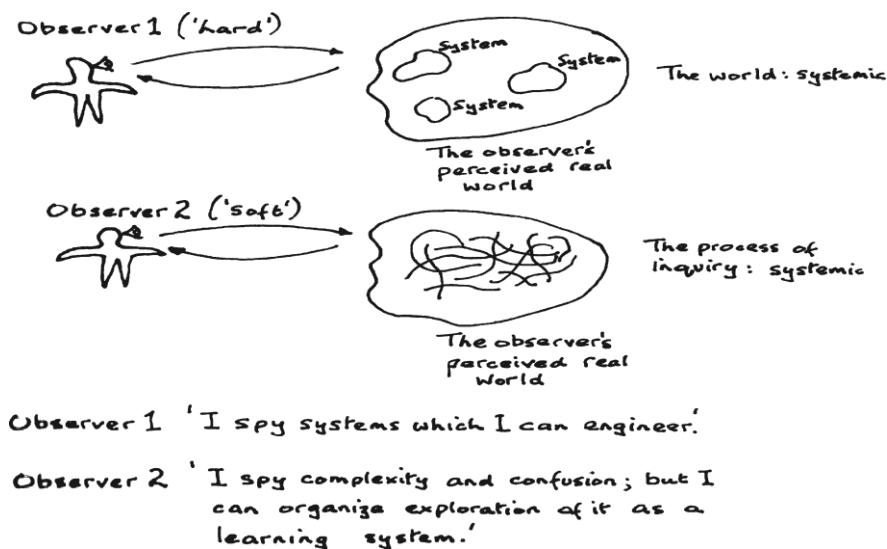
Smith and Elliott (2006) draw attention to a critical issue associated with the epistemology of risk as being that of limited appreciation of complex systems such as climate, ecology, technology and economics, each of which contain a multiplicity of variables and potential interactions that largely render them, in spite of scientific advances, unpredictable. High Reliability Theory (La Porte and Consolini 1991) seeks to address the nature of instability and vulnerability in complex systems such as those found in air traffic control, nuclear power plants and military organisations where both process aberrance and human or structural failure present significant and potentially disastrous outcomes (Smith and Elliott 2006).

Perrow (1999), an opponent of HRT, claims that the levels of reliability are best achieved through the design and management of organisations where substantial effort is required to overcome the inherent limitations of humans through robust system structures. Hillson and Murray-Webster (2007) allude to the limitations of those involved in risk complexity and aver that the most critical success factor in effective risk management is “an appropriate and mature risk culture” (Hillson and Murray-Webster 2007, p.xvii). Hillson and Murray-Webster’s (2007) comment on risk culture lends itself to the literature concerning risk attitudes and risk appetites that are unique to an individual in spite of the expressed policies and processes of the organisation. Their view underscores the needs to recognise the contribution of Checkland and Scholes (1990) to soft systems methodology where complexity interacts with humanity (Reynolds and Holwell 2010) and where a differing *weltanschauung* or “world view” prevails.

Figure 12 illustrates those differing perspectives pertaining to a given situation whereby risk potential arises due to differing world views from those within the group.

Likewise, Weick and Roberts (1993) also refer to the collective mind and the value of connections that link distributed activities as the way in which groups function and as such have the capacity to limit the potential for accidents.

Figure 12: Differing world views



Source: Checkland in Reynolds and Holwell (Eds.) 2010, p199

Normal Accident Theory (NAT)

In contrast to HRT, Normal Accident Theory (NAT) Perrow (1999) purports that no matter the level of input and energy designed to prevent catastrophe, the characteristics of complexity are such that, despite best efforts, failure will eventually occur at a systems level as opposed to mishaps at the more ubiquitous, workaday component level of operator error or equipment malfunction.

Perrow (2006) supports NAT and is a critic of La Porte and Consolini (1991), in concluding that bounded rationality and group interests will prevail and thereby the likelihood of a systems failure will occur as close-coupling and technological complexity challenge human comprehension (Smith and Elliott 2006). Perrow (2006) does however refer to the examples of Union Carbide, Chernobyl and the Challenger space craft disasters as component failures rather than as a "normal accident" due to managerial complacency and the remoteness of controlling elites in each instance (Smith and Elliott 2006).

For most small companies, limited resources constrain notions of high reliability and both normal and abnormal accident or incidents occur despite varying degrees of amelioration (Doern 2016). It may be argued that whilst Perrow (2006) refers to accidents and risks, potential and actual, of biblical proportions and earth-shattering magnitude, small businesses operate within a very different dynamic where direct and personal consequences pertain that situate the owner-manager as either instigator or victim, both of which may have disastrous, life-changing downstream outcomes at the local or individual level (Pachter 2001; Doern 2016). Hence risk, for the owner-manager of a small company takes on a close and personal guise.

Risk Assessment

It is at the local and personal level that Doern's (2016) research into the consequences to small companies of the London riots of August 2011 highlights the impact of unanticipated external events on small businesses, most of whom had not conducted any meaningful assessment of risk and had failed to prepare a plan for minimising such risk and managing the aftermath, including the resultant psychological and emotional damage. Doern writes,

"It has been asserted that effective crisis management planning begins when businesses identify all possible adverse situations that might occur not only in their industry but also in the greater environment (Fink, 1986; Simbo, 1993; Spillan and Hough, 2003; Weick and Sutcliffe, 2007). However, in this study, there was no indication that owner-managers had done this."(Doern 2016, p.282).

Doern's (2016) study appears to establish a clear link between effective risk assessment and crisis management planning. She adds,

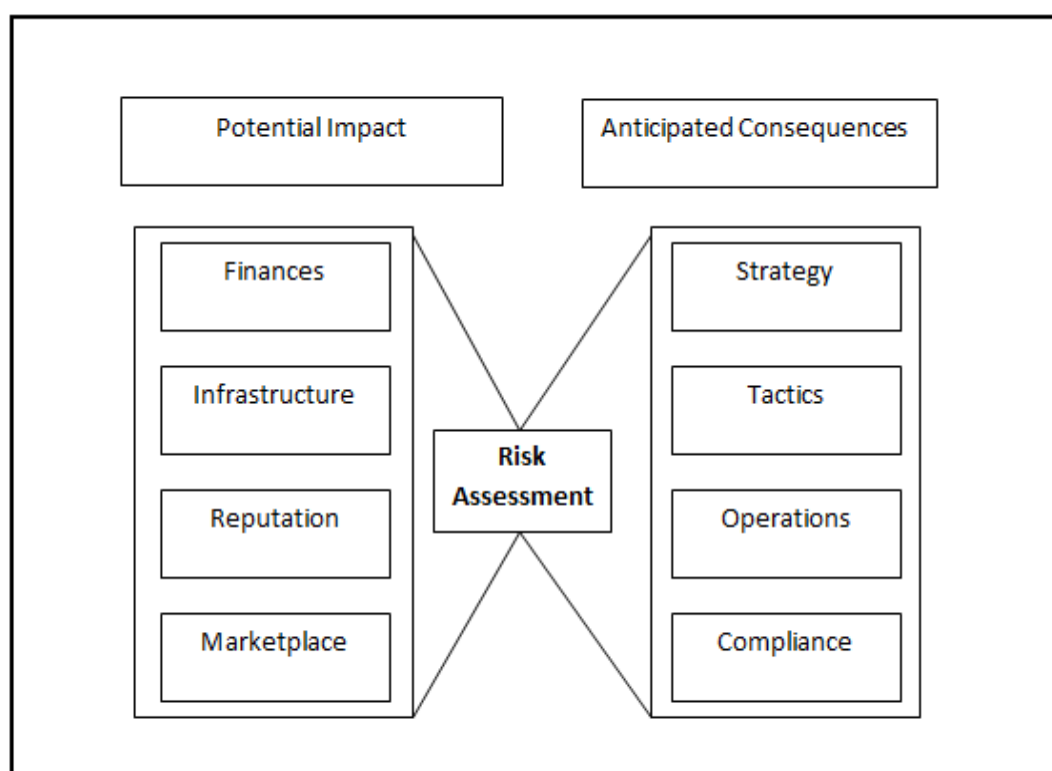
"Findings suggest that a lack of anticipation, limited experience and resources may have made these small businesses and their owner-managers more vulnerable to the effects of the riots" (Doern 2016, p.290).

From the findings of Doern's study, Robert Baden-Powell's simply stated advice to "Be Prepared" (Baden-Powell 1908, p.20) would seem to be the watch-words

buttressing effective risk assessment but as Doern (2016) and others (Drummond and Chell 1994; Bodmer and Vaughan 2009; Calabro 2009; Herbane 2013b; Brustbauer 2016) have established, there are operational imperatives that demand time and resources to meet the immediate and proximate and as such, planning for a negative event that may be unlikely to occur is seen as a peripheral matter of limited import.

According to Hopkin (2013) such risk assessment is the core process by which an organisation defines how it will identify the impact of events on finance, infrastructure, reputation and its marketplace. Hopkin (2013) refers to the scope of risk assessment as a “bow tie”, see Figure 13, interlinking the consequences of an event on strategy, tactics, operations and compliance.

Figure 13: Risk Assessment Bow Tie



Source: Hopkin (2013 p.55) Risk Management

It could, however, be said that Hopkin’s model appears to be somewhat clinical and detached as it makes no reference to the impact and consequences on the

individuals involved, such as loss of housing over the shop, which in the case of a resource-starved small business is the owner-manager with a personal stake in the enterprise extending beyond the financial and the commercial.

Hopkin's (2013) model also does not appear to recognise that beyond an organisational perspective each individual has a peculiar attitude towards risk that relies in part on their history and background but also functions within perceived levels of social capital that either detracts or enhances the chance of positive outcomes.

For example, owner-managers with strong networks embedded in communities of knowledge and support are less likely to experience catastrophic failure. Thus, they have greater propensity to take risks than those whose networks are somewhat tenuous and fragile (Janney and Dess 2006).

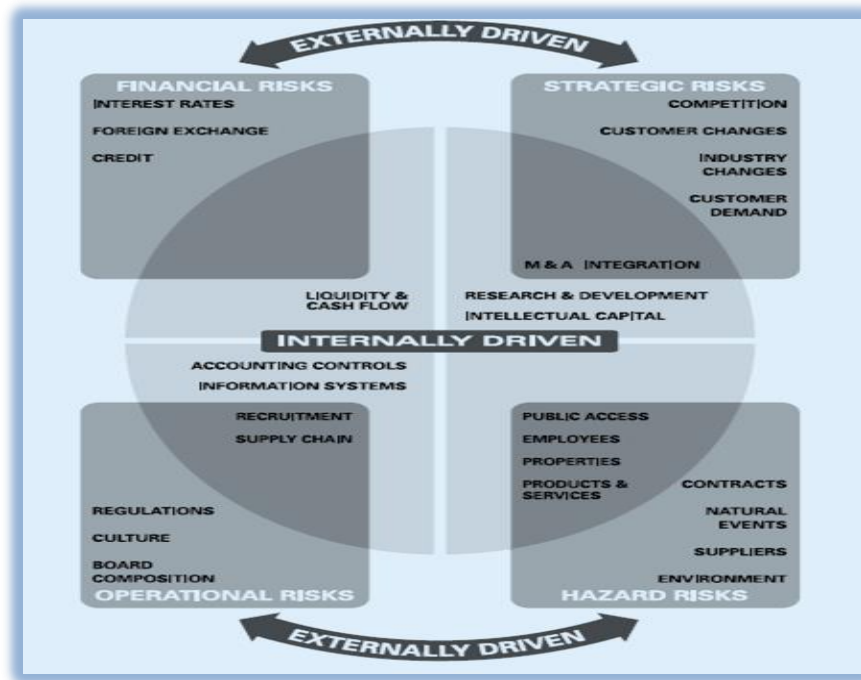
Taking a more process-based view, The Institute of Risk Management (IRM) propose that risk assessment be considered in a dyadic context with the internal and external threats overlapping in part within the four risk domains of Financial, Strategic, Operational and Hazard.

Figure 14 illustrates the IRM framework for risk assessment and whilst it may be said that the framework over-simplifies the risk assessment process, it nevertheless has an appeal for small business in that the checklist approach provides an accessible ready-to-wear template and recognises the need for action-focussed tools. Falkner and Heibl (2015) place significance on the need to identify risks, such as those shown on the IRM model, as a "necessary prerequisite for later risk management". (Falkner and Heibl 2015 p.125) and categorise risks according to those most frequently mentioned in the literature.

Risk Taxonomy

Chapman (2013) uses a similar approach to the IRM in describing risks as comprising those that are related to internal processes and those that are linked to the business operating environment (Institute of Risk Management 2002), see Tables 11 and 12.

Figure 14: Institute of Risk Management (IRM) Internal and External Risk



Source: Institute of Risk Management (2002)

Table 11: Risk Taxonomy - Internal Processes

Financial	Operational	Technological	Project	Ethical	Health & Safety
Liquidity	Strategy	IT	Risk Management	Source	H&S System
Credit	People	Communication	Team	Recognition	Work hazards
Borrowing	Processes	Controls	Optimism	Ethical issues	Human error
Currency	External	IT Governance	Tools	Risk events	Reliability
Funding	Outsourcing	Investment	Techniques	Implementation	Best practice
Foreign Inv.		IT Projects			
Derivatives					

Source: Chapman (2013)

The comprehensive categorisation of the business operating environment that Chapman (2013) uses would appear to bear similarities to the PEST LIED model, an extension of PEST Analysis created by Aguilar in his book, “Scanning the Business Environment” (Aguilar 1967).

The specific elements omitted by Chapman are “International” and “Demographic” but these are nevertheless incorporated within the “Political” and “Social” groupings.

Table 12: Risk Taxonomy - Business Operating Environment

Political	Environmental	Social	Legal	Market	Economic
Contracts	Energy sources	Education	Corporate law	Structure	Macro
Transitions	Resource use	Population	Property	Life cycles	Micro
Fiscal policy	Pollution	Socio-econ	Employment	Strategies	Gov. Policy
Activism	Global warming	Crime	Contracts	Acquisition	Demand
Terrorism	Emissions	Lifestyles	Liability	Game theory	Supply
Tariffs	Sustainability	Attitudes	IT misuse	Elasticity	Employment
		House prices		Distribution	Inflation
					Interest
					Currencies

Source: Chapman (2013) with minor adoptions by author

Practical application of the internal element of Chapman’s model is evident in the “International Finance Corporation Governance Review - The Report Generator for SMEs” (International Finance Corporation 2015). This diagnostic tool addresses five key areas of risk in the context of corporate governance as part of

Table 13: IFC Governance Risks Review for SMEs

Key Risk	Risk Description	Evidence Requirement
1.No demonstration of commitment to good governance	No tone at the top; Organisational structure unclear; Key policies not formalised	Written mission and vision; Code of ethics; Employee handbook; Governance plan; Org. Chart; 3-year business plan; mgt ToRs
2.Concentrated decision making and no oversight of strategy & performance	1 or 2 individuals make all decisions; No outside views on strategy and performance; ineffective board	Mgt Committee ToR and minutes; Authority matrix; Crisis management/ Business Continuity plan; CPD plan; Articles of Association; KPIs; Board Charter, papers and minutes; board calendar
3.Risk management and internal controls inadequate	Owner and business assets not differentiated; Oversight of controls weak; Internal processes flawed	Board resolutions; Procurement policy; Internal control and risk; Regulatory reports; External Auditor input
4.Financial and non-financial disclosures are poor	Poor quality and review of financial statements; Improper non-financial disclosures	Financial statements; Info. Disclosure policy; Annual report; Corporate website; Communications Policy
5.Shareholder rights inadequate or abused	Unequal treatment of shareholders in decision making; Family governance issues not addressed	Articles of Association; Shareholders Agreement; Succession policy; Dividend policy; Family Council and minutes of meetings

Source: Based on IFC with author summaries

a decision process concerning investment and investment security, see Table 13. In examining the IFC criteria, risk, as part of governance, is seen in large part as an internal issue and thus it may be argued the approach is lacking in balance by side-lining such matters as supply chain risk, market risk, currency risk and the other external risks illustrated in the IRM model and in Chapman's taxonomy.

Risk Management Process

Smit and Watkins (2012) state that whilst owner-managers are fully engaged with the companies they operate, they tend towards heightening the significance of external factors, while underrating internal weaknesses. Smit and Watkins (2102) conclude that owner-managers' of small companies tend to adopt a restricted mind-set regarding risk processes that is focussed upon "loss control programmes in areas of fire, safety, security, health, and quality assurance" (Smit and Watkins 2012, p.6328). Smit and Watkins (2012) add that, in many small companies, the risk management process is largely re-active and it is only at the point where a potential risk transmutes into a crisis that action is taken to manage and mitigate the event and in effect closing the stable door after the horse has bolted.

Falkner and Heibl (2015) have also established that, based upon case-study research, risk management processes in small companies "may be very informal, which, in turn, inhibits sharing and thus also building of risk management capacity" (Falkner and Hiebl 2015, p.133). Others, (Bruns and Fletcher 2008; Ellegaard 2008; Sukumar et al. 2011) maintain that, in particular, financial and HR resources are limited in small companies as is an ability to manage concurrent crises. In contrast, Brustbauer (2016), finds several examples of small companies adopting a proactive approach to risk management (Brustbauer 2016). Falkner and Heibl (2015) however, appear to recognise that risk management practices are heterogeneous across the small company sector when they conclude that,

"Thus, in the published literature, there are incidences both of rather informal risk management and of more formalized and proactive approaches" Falkner and Heibl (2015 p.133).

The Risk Rainbow

Sullivan-Taylor and Branicki (2011) and Weick and Sutcliffe (2001) both argue for a wider and more comprehensive overview of business risk that incorporates a gamut of sub-sets across a range of linked literatures. They add that “there is fragmentation and a lack of conceptual clarity within these literatures” (Sullivan-Taylor and Branicki 2011, p.5566) yet it may be ventured that the analogy of a rainbow as a multi-levelled spectrum, concurrent, with common beginnings and conclusions adequately represents the inter-related nature of what Sullivan-Taylor and Branicki (2011) describe as organisational resilience - the ultimate pot of gold.

The overlapping and associated streams of a disunited literature contain for example, enterprise risk management, crisis management, incident management, emergency planning management, disaster recovery, business continuity planning, business continuity management, business impact, contingency planning, and threat management.

Weick and Sutcliffe (2001) define resilience as “bouncing back from errors and about coping with surprises in the moment” (Weick and Sutcliffe 2001 p.107) and contend that resilience is achieved through the application of internal and external resources that include such as networks, skills, knowledge, attitudes associated with mindfulness and perception.

The application of these attributes would seem to accord broadly with the Resource-Based View (RBV) of the firm and correspond with the findings of the Government of Australia publication “Organisational Resilience Good Business Guide”, see Figure 15, that synthesises the elements that enable a company “to survive a crisis and thrive in a world of uncertainty” (Australian Government 2016, p.6).

Figure 15: Resource application and organisational resilience



Source: Australian Government (2016)

Crisis Theory, Models and Frameworks

Just as crises differ according to context, so Lalonde and Roux-Dufort (2012) point out that, “a crisis cannot be viewed as a homogeneous concept” (Lalonde and Roux-Dufort 2012, p.21) and state that crisis management is a paradoxical expression in that “a crisis is unique, exceptional, and, a priori, impossible to plan or to manage” (Lalonde and Roux-Dufort 2012, p.22). This assertion would appear to be stating that a fundamental principle of any given crisis is that of a distinctive event and as such, the management thereof can be neither predetermined, formulaic or exercised as a “ready meal” model. This view, therefore, brings into question the validity of many of the current models and frameworks where the prevalent paradigm is one of advance response planning, to varying degrees of sophistication and intensity, in order to prevent or mitigate disruption.

Nevertheless, Turner (1978) argues that, as the pursuit of rationality within organisations increases and the associated attempts to control complex technologies prevail, so rational structures themselves will produce unintended consequences that will be oblivious to managers due to the dysfunctionality

inherent within convoluted information systems. A further paradox therefore emerges, in that, in the quest for rationality, the rational organisation magnifies the errors generated that in turn create the crises that the system is designed to prevent. The corollary to this view, therefore, is that it is the rational and efficient and organisations that are at greatest risk.

Perrow (1999), in his work related to Normal Accident Theory (NAT), described earlier, highlights the vagaries of complex technology and its associated tight coupling as presenting a challenge to those charged with the responsibility of operating a system, the design of which, leads to the inevitability of “normal accidents” (Perrow 1999, p.150). Concerning crisis management, if there is an assumption that Perrow’s NAT theory is valid, the question that requires an answer relates to the role of managers in unearthing potential crises in a timely fashion and engaging in subsequent learning to further the incidence of reliability and diminish the opportunities for aberrance.

Proposing an opposing view to that of Perrow (1999), La Porte and Consolini (1991), use High Reliability Theory (HRT) to portray organisations that have been free of accidents despite complexity and tight coupling and reference the USA nuclear submarine programme as an exemplification of such a system.

Perrow’s belief is that HRT is an example of misplaced optimism; that such systems have been coincidentally “lucky” and that, in essence, “time will tell” thereby concluding that it is not a case of “if” but “when” the inevitable accident occurs that will give rise to a crisis.

Fouda and Agrius (2013) in their paper on the impact of a crisis upon managers agree with Perrow (1999) and state that “it will never be possible to mitigate the chance of catastrophes occurring” (Fouda and Agrius 2013, p.21).

Recognising the inevitability of crises, Adams (1995) uses a homeostatic model to suggest that an instinctual and unconscious need to engage with, and create, risk will counteract all attempts to limit or prevent risk and hence, Adams (1995) proposes that resources should be invested in response rather than in prevention.

This would seem to be a counter-intuitive view that conflicts with a widespread understanding that supports effective planning in order to optimise resource utilisation. This is particularly the case in eliciting a timely response to natural hazards where, for example, the USA authorities were heavily criticised for planning failures pre and post Hurricane Katrina.

Hurricane Katrina and other high profile, spectacular crises, such as the Tylenol poisoning incident, the Challenger Spacecraft explosion, the Three Mile Island nuclear plant meltdown, the Deep Water Horizon oil spill and the Union Carbide chemical gas cloud in Bhopal have all occurred within large organisations in both the private and public sector and have tended to dominate the crisis management literature (Herbane 2015). They have been analysed extensively in academic circles (and in committees of enquiry) through the lenses of a number of theoretical standpoints (Mitroff and Anagnos 2000; Smith and Elliott 2006; Crandall et al. 2010).

Lagadec (2003), in common with much of the literature, addresses crises such as the 9/11 Twin Towers terrorist attack and the “Mad Cow” disease outbreak from an internationalist, far-reaching and socio-political perspective.

To suggest, however, that in order to determine a crisis event, there must be a strategic and extended component would be to deny the subjective nature and perception of such an occurrence.

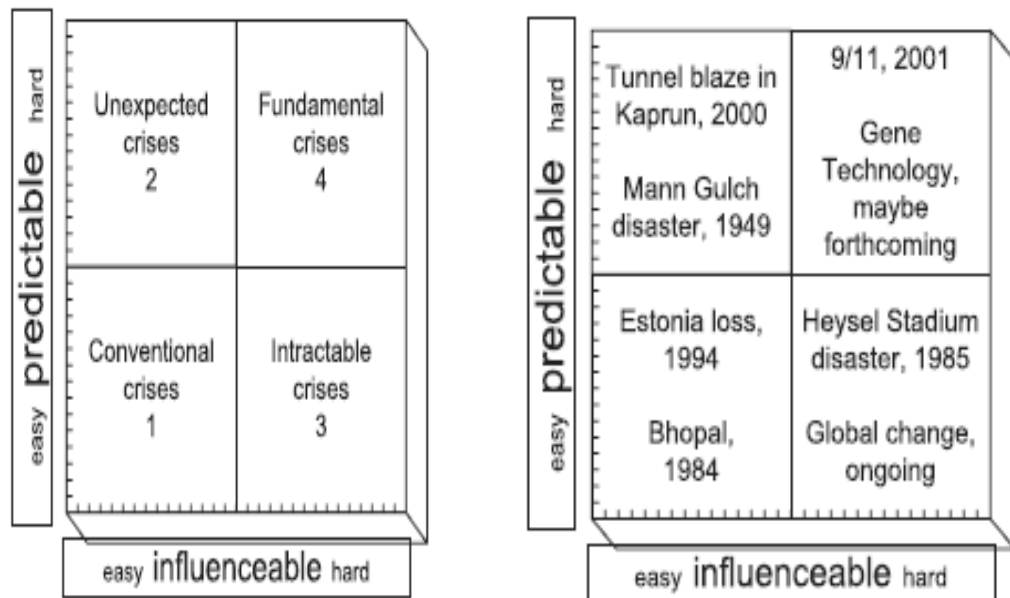
It could be claimed therefore, that the term crisis is amorphous in its denotation and can be employed across a continuum of unanticipated and generally undesirable events encompassing at one extreme the commonplace and personal, such as receipt of a redundancy notice, and at the opposite extreme, the extraordinary effects of a widespread influenza virus for example.

Gundel (2005), over ten years ago, produced a matrix designed to isolate the nature, frequencies and complexities of crises and proposes a typology of crises in order to enable effective mechanisms for prevention and response.

Gundel (2005) distinguishes four types of crises; “conventional crises, unexpected crises, intractable crises and fundamental crises” (Gundel 2005b,

p.110) and gives examples of such, see Figure 16, based upon his criteria of each sub-set.

Figure 16: Gundel's Crisis Typology Matrices



Source: Gundel (2005)

As such, Gundel (2005) makes a fundamental statement concerning the diverse and unique circumstances that apply to each crisis – that there is no common blueprint and accordingly each event will in turn require a bespoke response the mechanics of which reside within a flexible framework.

Gundel (2005) proposes that, as heterogeneity pervades the current, somewhat myopic taxonomy, an alternative to the imprecise approach to classification is needed that is more akin to the hierarchical model of kingdom, phylum, classes, order, families, genus and species that is used in the natural sciences.

A summary of the theoretical models pertaining to crises, see Table 21, and serves to demonstrate that there is no dominant general theory relating to crisis management but rather a segmentation of the sub-elements of a crisis and a sub-division of the taxonomic variances within the field of study.

Scholars propose that prior to the commencement of a crisis, it is possible to read the runes of an impending event and to detect the nuances, omens and warning signals in advance (Pearson and Mitroff 1993; Richardson 1994). Hale (2005) describes these warnings signals, both subtle and ostensible, as “trigger points” (Hale et al. 2005) whilst Fink (2002) refers to the “pro-dromal phase” (Fink 2002, p.20) - the stage prior to a crisis itself occurring where an appreciation of the portents is critical.

It is possible to conclude that the failure to act upon these signals, however subliminal they may be, is an abdication of management responsibility and a collapse of imagination resulting from, amongst other factors, denial and disavowal (Mitroff and Anagnos 2000).

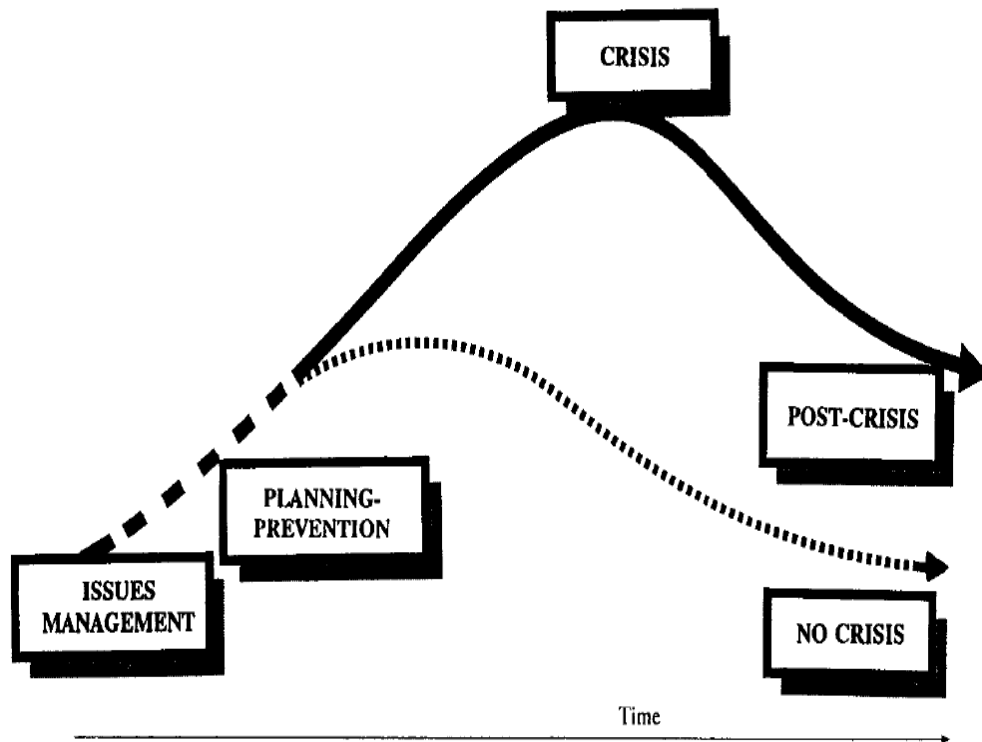
To illustrate the progress and diversity of thinking related to crises there is a range of frameworks developed by Smith (1990), Richardson, (1994) Myers (1993), Fink (2002), Pearson and Mitroff (1993) and Crandall et al,(2010) all of whom adopt a sequential structure that runs through a varying number of identifiable phases, see Table 14, (Mitroff and Anagnos 1988; Smith 1990; Myers 1993; Pearson and Mitroff 1993; Richardson 1994; Fink 2002; Crandall et al. 2010).

Indicative of the sequential planning models is the twin track model proposed by González-Herrero and Pratt (1996) which highlights the consequences of planning failures

The question the González-Herrero and Pratt (1996) model, see Figure 17, and other similar models raise, concerns the nature of the relationship between “crisis” and “no crisis” and outcome dependency and is based upon the degree of planning intensity prior to the pro-dromal phase.

Can, for example, high levels of resource input lead to reduced impact and interruption or indeed to the complete elimination of a crisis which of course can never be recognised?

Figure 17: Development of issues with and without Intervention



Source: González-Herrero and Pratt (1996)

Table 14: Sequential Frameworks for Crisis Management

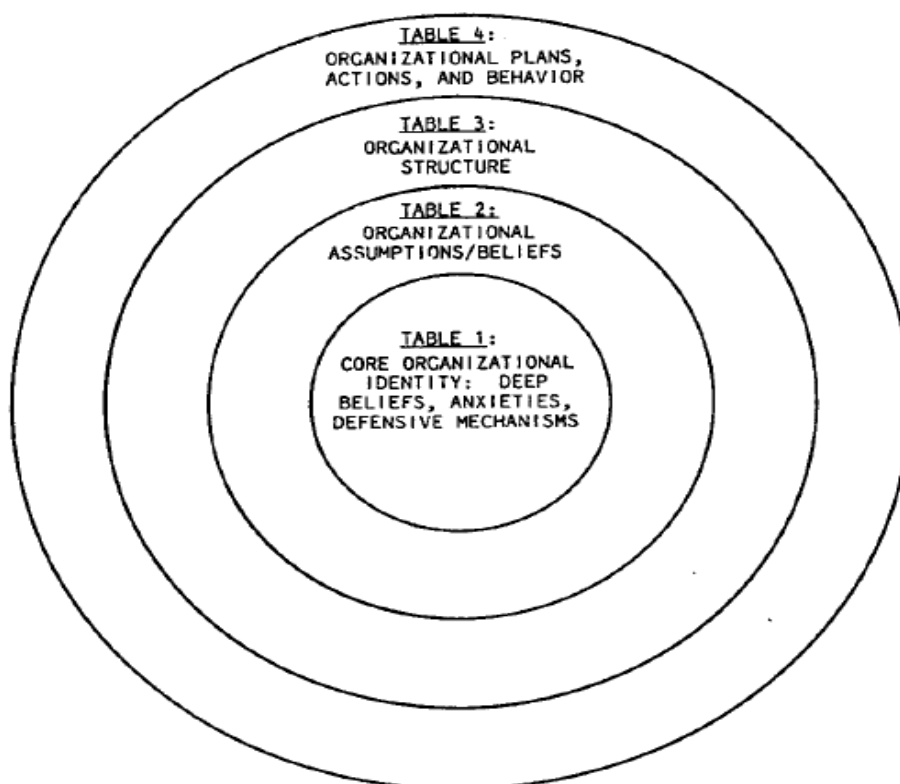
3-Stage Framework Generic Phases	3-Stage Framework Smith, 1990	3-Stage Framework Richardson 1994	4-Stage Framework Gonzalez-Herrero and Pratt 1996	4-Stage Framework Myers,1993	4-Stage Framework Fink, 2002	5-Stage Framework Pearson & Mitroff,1993	4-Stage Framework Crandall et al, 2010
Pre- Crisis	Crisis of Management	Pre-crisis Phase	Issues Management	Normal Operations	Prodromal crisis stage	Signal Detection	Landscape Survey
			Planning Prevention			Preparation Prevention	Strategic Planning
During Crisis	Operational Crisis	Crisis impact Rescue Phase	Crisis	Emergency Response	Acute crisis stage	Containment Damage Limitation	Crisis Management
				Interim Processing	Chronic crisis stage		
Post Crisis	Crisis of Legitimation	Recovery/Demise Phase	Post crisis or no crisis	Restoration	Crisis Resolution Stage	Recovery Learning	Organisational Learning

Source; Author with acknowledgement to Crandall et al (2010).

In contrast to the prevailing linear and sequential approach, Mitroff et al. (2000) propose an “onion model”, see Figure 18.

The outer layers or “tables” closest to the perimeter of the model are attributes of an organisation that have visibility and a measure of transparency and are accordingly in the upper levels of consciousness.

Figure 18: “Onion Model” of crisis management



Source: Mitroff and Anagnos (2000)

“Table 3” “Table 4” within Mitroff’s onion model include the formal procedures and policies related to crisis management. Conversely, the two inner tables, particularly the central core, have invisibility and are subliminal, yet Mitroff and Anagnos (2000) argue that, above all, it is these deep-seated factors that are often the determinants of action concerning attitudes and behaviours related to crisis management. For example, one of the sub-sets within

“Table1” - the innermost ring - contains behaviours and organisational defensive routines such as denial; disavowal; idealisation; grandiosity; projection; intellectualisation; compartmentalisation; splitting and repression.

It can be argued therefore, that if the core of an organisation is unstable and its values corrupted, then the surface-based activities such as the prevailing behaviours and policies of an organisation will be largely irrelevant, and possibly offer a false dawn, with regard to their impact upon crisis management.

Mitroff et al. (1989) comment that,

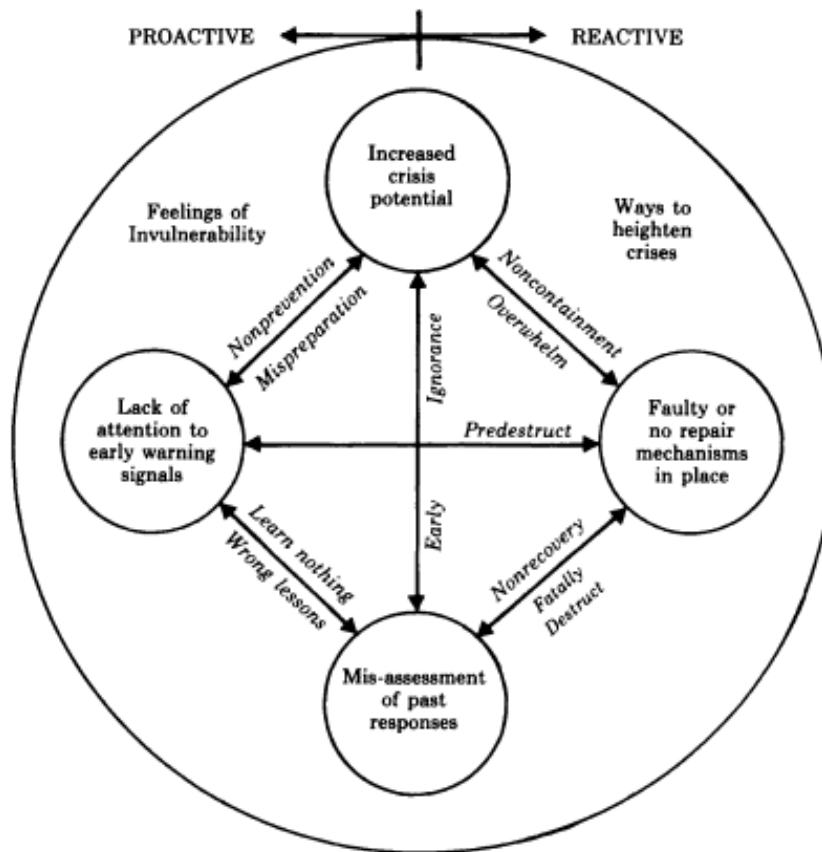
“The organization can put together formal crisis manual after crisis manual and issue formal directive after directive and still little of a positive nature will result. At best, it will have the illusion of preparation and control”. (Mitroff et al. 1989, p.273).

The clear implication of the model is that successful crisis management is a sectional cross-cut in which the causes - hidden assumptions, values, policies, programmes, and plans - are unearthed and raised to the surface. The conclusion drawn by Mitroff et al. (1989) would seem to align with the memetic and cultural attitudes that underpin corporate governance (Richardson 1994; Rejchrt and Higgs 2014) leading Mitroff et al. (1989) to state that it is attitudes and culture that are the determinants of an organisational status that leans towards being either “crisis prone” or “crisis prepared” (Mitroff et al. 1989, p.269).

A further contribution from Mitroff and Anagnos (1988) underlines the value of a pro-active posture that advocates attention to early warning signals. His model entitled “A crisis creation model or “Design for Disaster.””, see Figure 19, represents the antithesis of good practice attributes. The model shows a lack of attention to signals; a failing to engage in self-reflective learning regarding historical precedents and complacency in righting earlier wrongs. The culmination of these basic failings, Mitroff and Anagnos (1989) claim,

together with feelings of invulnerability contribute to an increase in crisis potential.

Figure 19: A crisis creation model- “Design for Disaster”



Source; Mitroff and Anagnos (1988) The structure of man-made organisational crises

Mitroff and Anagnos (2000) move on from the internal scripts related to managerial shortcomings to structural matters and state that crises themselves are increasing in frequency due to complexity, tight coupling of systems, scale and scope of operations, the speed at which business occurs, and the visibility and transparency resulting from a ubiquitous media. They build upon the earlier work of Mitroff and Pauchant (1989) and offer a systems approach to posit that, once again, using an onion model, organisational factors are the determinants of successful crisis management. The layers in

this particular onion are firstly, Technology on the outer skin followed by Structure, Human Factors, Culture with “Top Management Psychology” at the core (Mitroff and Anagnos 2000).

Chaos Theory

The neat columns, linearity and precise geometry of models and frameworks proposed by Mitroff and Anagnos (2000) and Gundel (2005), might suggest that there is an underlying order, structure and process that seamlessly enables a crisis to be managed, the outcome of which is that disruption is limited and damage averted or contained and all lived happily ever after. Murphy (1996) however, offers a model of a crisis event that is the antonym of order. Her paper considers the role of Chaos Theory, “the study of complex, nonlinear, dynamic systems” (Levy 1994, p.168), in crises and criticises the processual frameworks that, she claims, do not recognise the rapid and varying levels of discombobulation experienced during a crisis by actors and publics alike or the need for responses that are pre-determined, prescriptive and formulaic. She writes,

“Typically a crisis forms as a sequence of events that seems, over time, to gather volume and complexity with increasing speed. Its dynamic therefore resembles that of a chaotic system as it iterates through increasingly complex phases toward a disordered state.” (Murphy 1996, p.105).

Chaos Theory attempts to understand the behaviour of systems that do not develop in a linear, predictable, conventional cause-and-effect manner over time and can be seen as congruous with the postmodern paradigm, which questions a deterministic and positivist ontology as it recognises the convoluted and diverse nature of experiences and perceptions.

Murphy (1996) asserts that chaos theory stresses that, “cataclysmic moments are not random”, (Murphy 1996, p.106) but rather the product of aggregated cacophony within the system.

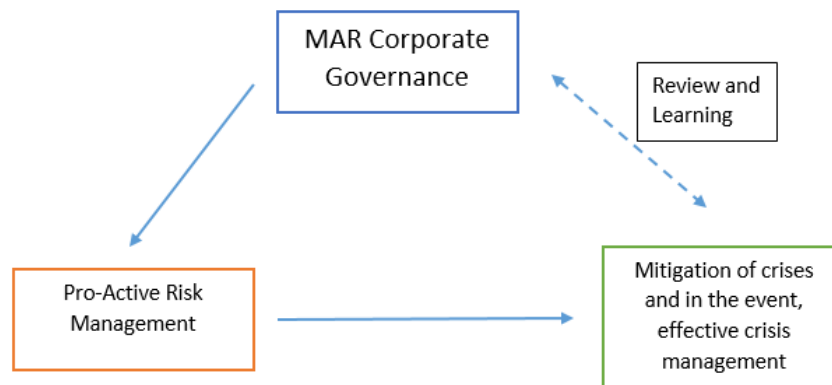
Thus Murphy (1996) would appear to be pointing to inherent flaws within the organisation that amplify over time and hence inevitably generate crises independent of exogenous factors. As chaotic systems do not reach a stable equilibrium, so Murphy's (1996), view co-exists alongside that of Topper and Lagadec (2013) whose theory of fractal crises states that a dynamic event "does not fit into conventional references, formats or codes " (Topper and Lagadec 2013, p.8). Topper and Lagadec (2013) go on to refer to Mitroff's categorisation of normative managerial responses whereby organisations fall prey to executive shortcomings as a result of denial strategies that pay homage to history and are obsequious to optimism until such time as managerial complacency has bred a bastard mantis that threatens or consumes the host. Such is the case in many small companies.

Chapter 2- Literature Review

Overview of the chapter

The purpose of this chapter is offer a critical and systematic review of the extant literature with particular reference to the contingent and collibrational nature of meaningful, appropriate and relevant (MAR) corporate governance, risk and crisis management in small companies. The review contextualises this study within the literature and is the basis from which the research question emerges, see Figure 20.

Figure 20: Collibration Model of Corporate Governance for small companies



Source: Author

The review commences with an exposition of the systematic approach taken in the literature review, followed by an exploration of the nature and traits of small companies and the emergence of corporate governance theories and practices that have been formulated and subsequently developed during the last thirty-five years.

The review then goes on to examine the way in which the tenets of corporate governance have begun to embrace a realm beyond its original focus on the listed company, and investigates the growth of codes of practice relating to

corporate governance leading to a recognition that a “one size fits all” is not a viable approach (Corbetta and Salvato 2004; Karoui et al. 2014; Khlif 2015).

The review further explores the role of corporate governance in small companies and the coexistent areas of risk and crisis management planning – viewed as essential defensive elements within the concept of effective corporate governance (Zinn 2008; Henschel 2010; Ansong 2013; Crossan et al. 2015).

The review then concludes with a summary of previous research, its contribution to the body of knowledge and gaps within the literature. The chapter then specifies the research problem and outlines the justification for this study.

Aim of the literature review

According to Tranfield,

“The aim of conducting a literature review is often to enable the researcher both to map and to assess the existing intellectual territory, and to specify a research question to develop the existing body of knowledge further.” (Tranfield 2003, p.208).

Tranfield (2003) however, points out that literature reviews are frequently little more than a descriptive narrative, lacking in critical assessment and with a plethora of references that contain implicit biases that confirm the views of the researcher. Vázquez-Carrasco and López-Pérez (2013) acknowledge the view taken by Tranfield and state that the purpose of a systematic literature review is “to provide a portrait of existing research on a given subject.” (Vázquez-Carrasco and López-Pérez 2013, p.3207) and that the researcher must utilise scrupulous filtering techniques to sift the search and “evaluate each related study in a critical, justified way” (Vázquez-Carrasco and López-Pérez 2013, p.3207).

The literature referring to the review process concludes that the goal of a review is to provide a clear, objective and critical study that summarises the evidence and where search and analytical bias is minimised. Scholars are, nevertheless, divided in terms of the ontological and epistemological perspectives concerning the nature of literature reviews. Davies et al (1999) for example, argue that these divergences arise as a consequence of the nature and traditions of particular fields of study that range from the positivist and quantitative approach largely adopted by science, to the qualitative, phenomenological or post-modern perspective adopted by many researchers in the social sciences where there is a “general distrust of any notion of objective evidence” (Davies et al. 1999, p.4). Irrespective of ontological and epistemological positions, a literature review involves large amounts of information that must be analysed and categorised in order to enable synthesis, comprehension and understanding to take place. Rousseau et al (2008) expand on this point and note that a systematic review involves a structured accretion, analysis and thoughtful “interpretation of the full body of relevant empirical evidence related to a question” (Rousseau et al. 2008, p.475).

In the case of this study, the “*question*” is concerned with corporate governance and its contribution to risk and crisis management in small companies.

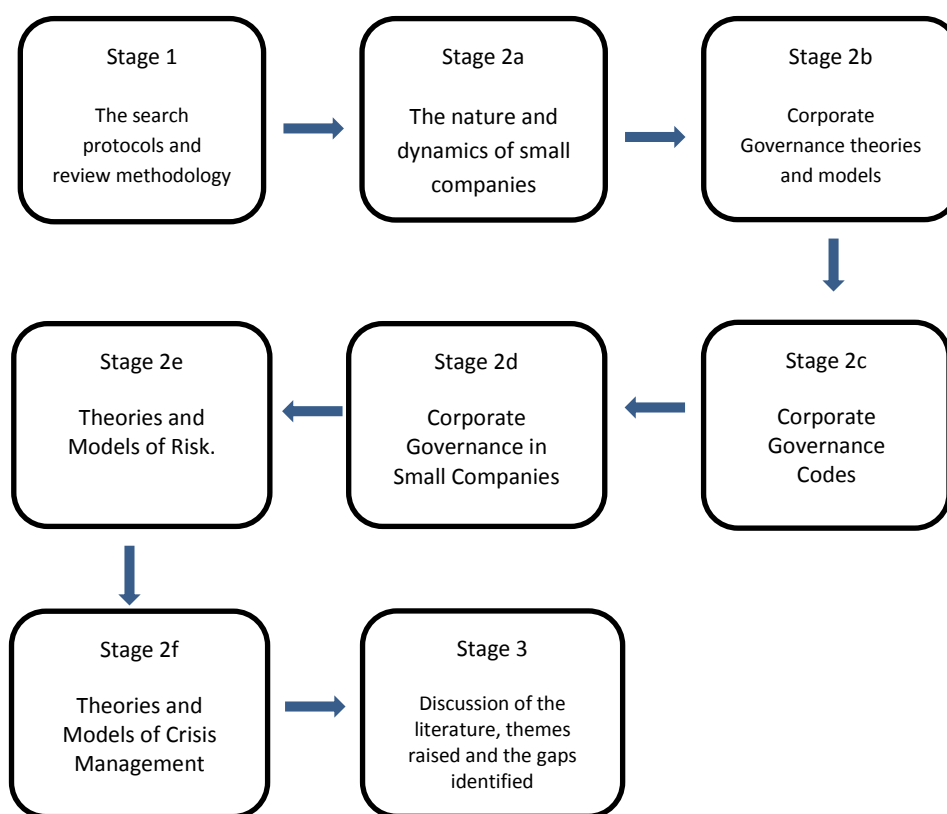
Planning the review

This literature review has three aims, firstly, to screen, evaluate, interpret and summarise the existing evidence related to the nature and characteristics of corporate governance, risk and crisis management in small companies. Secondly, to identify, through a comprehensive understanding of the extant literature, gaps in current research in order to ascertain areas for further investigation and thirdly to provide a framework that assists the researcher in positioning and contextualising new research.

The review follows Tranfield (2003) who proposes a three stage structural methodology. Stage 1 involves planning the review; stage 2 is concerned with conducting the review and, finally, stage 3 relates to reporting and dissemination.

Within the three stages, the literature review falls neatly into eight modules, see Figure 21. Whilst the model in Figure 21 appears processual and neat, the reality is that the process involves differing rates of progress, cul-de-sacs, re-visiting, discarding, procrastination, flashes of inspiration and illumination as well as periods of confusion and disquiet.

Figure 21: Three Stage Literature Review Model



Source: Author, based on Tranfield (2003)

Conducting the review

The literature review, in the first instance, comprises a broad key word search of peer reviewed academic journals published between 2000 and 2017. The search criteria for the first group of key words, using Boolean logic, has as its primary focus “small compan*” AND “corporate govern*”. Variations of these key themes includes the use of operator OR with respect to “small firm*” OR “small business*” OR “small enterprise*” OR “sme”. The second group of key words includes a mix of “risk” OR “manage* risk” OR “risk manage*” AND “cris* manage*” OR “manage* cris*”. These categories are considered to be the most relevant and fruitful sources of quality information in the first instance. The search is however, extended to journals and other credible sources prior to 2000 where a wider reading of the literature suggests that such papers, reports and publications are judged to be of particular relevance, of a seminal nature or of ground-breaking significance.

A further search concentrates attention on scholarly works including conference proceedings, publications, and books dealing with corporate governance, crises and risk. The focus of the search is that of literature dealing with “corporate govern*” “crisis manage* in small company*” OR “crisis manage* in smes”. The term “companies” is interchanged with “firms”, “enterprises” and “businesses” whilst the term “crisis” is likewise interchanged with “disaster”, “crises”, “contingencies”, “risk” and “incidents” using the asterisk to include variants of the terms.

As an adjunct to the word search approach, the review adopts a targeted method based upon the Association of Business Schools (ABS) literature ranking structure whereby highly rated journals published over the previous ten years are interrogated in the interests of excellence of scholarship, relevance and currency.

Furthermore, specialist journals, such as The Journal of Crises and Contingencies, may not however be ranked by ABS, but nevertheless provide highly focussed, peer-reviewed papers and as such are relevant to this study.

At a secondary level, the search has at its focus, reports, pamphlets and publications from central and local government, professional organisations such as the Association of Chartered Certified Accountants (ACCA), Institute of Chartered Accountants in England and Wales (ICAEW) and other august bodies such as the Institute of Directors (IOD) and The Institute of Risk Management (IRM).

A search at a tertiary level is conducted to review articles in publications, newspapers and magazines emanating from trade bodies, commercial concerns, consultants and practitioners. The tertiary level search also includes relevant articles, comment, opinion and news items found on-line and in media channels such as the BBC.

The nature and dynamics of small companies

UK-based small companies are, in common with much of the rest of the world, a significant element within the national economy (Hiebl 2012; Hong et al. 2012; Yiannaki 2012; Verbano and Venturini 2013; Vrečko and Širec 2013; Farooq 2014). Summarising their significance, Tilley (2000) states,

“it is possible to conclude that small firms can no longer be viewed, individually or collectively, as an insignificant component of the economy or the environment.” (Tilley 2000, p.33).

The extant literature reveals that within the overall typology of Small to Medium Sized Enterprises (SMEs), into which micro and small companies are bracketed together as a sub-sector, there is a pronounced heterogeneity where, for example, management style, resources, planning capabilities and skills differ widely between companies that vary in size from a sole trader to a business deploying significant tangible and intangible assets (Ang 1991;

Brunninge et al. 2007; Uhlaner et al. 2007b; Kohler and Deimel 2012; Blackburn et al. 2013; Karoui et al. 2014). Blackburn et al (2013) state that those differences are evident between those “small companies” segregated as a sub-set within the overall SME sector. The differences occur largely as a consequence of the aspirations and gender of the founder, antecedent attributes, prior experience, education levels, industry sector and location Blackburn et al. (2013). As such, it could be argued that there is a need to recognise that definitions and characteristics that are frequently based upon employee numbers, as is the case in the UK, offer a one-dimensional perspective and a somewhat crude basis for analysis.

Lobontiu and Lobontiu (2013) concur with this view and aver that a small business has a series of fundamental features that differentiate it from a medium-sized or large company. The first of these is an absence of functional managers where, in many cases, control of a small business is vested in one person. Lobontiu and Lobontiu (2013) go on to add that there are also thresholds and discontinuities in a small business that limit growth and capacity due in part to both restricted working capital and market incoherence. Finally, Lobontiu and Lobontiu (2013) see the owners’ socio-emotional identification with the business and his or hers’ associated beliefs, attitudes and values as a key differentiator between small companies themselves, and between small companies and their larger counterparts.

Bannock (2005) however defines small companies in terms of characteristics that comprise; a small market share; managed in a personalised way and independence in the exercise of management responsibility. This leads him to conclude that “each small business is unique”(Bannock 2005, p.7).

Despite these differences of approach, the literature identifies a homogeneous trait pertaining to all small companies as being that of fragility and a limited capacity to withstand unwanted business interruptions (Spillan and Hough 2003; Betts et al. 2012; Clancy et al. 2013). Herbane (2015) and others, for example, point out that vulnerability is inversely proportional to

size, hence, as organisational size decreases so susceptibility to adversity and perturbation increases (Corey and Deitch 2011a; Asgary et al. 2012). Despite the inherent flexibility of small companies, their widespread use of relatively simple technology, limited resource requirements and high levels of social capital, the impact of acute business interruptions can be severe and constitute an existential threat (Irvine and Anderson 2004; Lampel et al. 2014; Kurschus et al. 2015).

A potential threat that subsequently morphs into to a business interruption in a small company differs fundamentally from a similar disruptive event occurring in a large business (Budge et al. 2008a). In the case of a small company, the impact of the disruption goes beyond what might be called the business sphere and has the potential to impinge directly upon the income, lifestyle and personal assets of the owner-manager (Drummond and Chell 1994; Bodmer and Vaughan 2009; Hiebl 2012). Whilst small companies tend to be agile and able to adapt to changing and unforeseen circumstances (Doern 2016) they nevertheless have little slack and are resource-limited (Verbano and Venturini 2013). As such, Doern (2016) concludes that in view of the high mortality rate within the small company sector, improving resilience, competence and capability in small companies is both a macroeconomic imperative as well as a social benefit to the communities in which those businesses are located.

Definition of small companies

Definitions vary as to what is, and is not, included within the largely meaningless umbrella term SME or within the “small company” sector (Clarke and Klettner 2009; Berisha and Pula 2015). Scholars and practitioners use criteria emanating from international institutions, national legislation, industry-derived metrics, or by a melange of measures such as revenue or asset value (Ayyagari et al. 2007; Berisha and Pula 2015). This multi-dimensional approach contrasts greatly with the Bolton Report on small business in 1971 that uses only employee numbers as its definitional base (Berisha and Pula

2015) and which continues to be the critical measure prevalent in 2018 despite its inherent flaws.

Reflecting the lack of consensus concerning the definition of an SME, Karoui et al (2014) contend that, even within the SME sub-sector of “Small”, there are wide disparities and whilst a measure of employee numbers within specified ranges is a convenient approach to labelling, it could be argued that a more rigorous categorisation is required based upon criteria such as, industry sector, finance, attitudes and governance structure. Brooksbank (1991) supports this widening of criteria and proposes a mix of quantitative (employees and revenue) and qualitative (scope and products) benchmarks. Gibson and Van der Vaart (2008) however conclude that, “we are far from an international consensus on what constitutes SMEs” Gibson and Van der Vaart (2008 p.8), thereby echoing the view of Berisha and Pula (2015) and Tommaso (2000) both of whom concur that the typology is not a scientific division based on macroeconomic indicators, but rather a statistical arbitrariness designed to facilitate comparable performance and a common classification.

In spite of the claim that the typology is arbitrary and the author’s view that the term SME is meaningless, at the end of 2017, the UK Governments’ Department for Business Innovation and Skills determines that small companies (including micro businesses) comprising 0-49 employees account for 99.3 per cent of all private sector businesses in the UK, 48 per cent of private sector employment and 37 per cent of private sector turnover (UK Government 2017a).

However, it could be claimed that this seemingly discrete and precise categorisation can lead to confusion. An enterprise, for example, towards the upper decile of the definition of “small” is likely to have a relatively developed infrastructure and internal management systems. It may own premises as well as significant fixed and current assets (Pal 2013). Such a business, one of which the author chairs the board, may also have external directors,

shareholders and investors and hence, according to Karoui et al (2014) the assumption of homogeneity within the sub-sector is misplaced. Herbane (2010) however, notes the particular importance of the micro and small company sectors in the UK but does not however distinguish between the “Micro” and “Small” classification in his definition and by conflating the two groups may, as Karoui et al. (2014) argue, be failing to recognise a self-evident truth, that the internal dynamics of a sole trader working in a garden shed or from the back of a van have little in common with a business employing 49 staff.

Gibson and van der Vaart (2008, p.16) disagree with Karoui et al (2014) and adopt a collectivist view believing that it is time to move from a *de facto* merger of “small and medium” to a *de jure* recognition of SME as a single-size group, or developmental asset class. Gibson and van der Vaart (2008) underscore their argument when they point out that at a global level the broad umbrella SME classification, using employee numbers varies from an upper limit of 500 in the USA to a ceiling of 99 in Tanzania (OECD 2005).

Given the assortment of approaches, the UK Government generally defines the size of a business by the number of employees, but does choose, in specific circumstances, to use revenue as an alternative measure. The Companies Act 2006 sections 382 and 465 define a small company as one that has a turnover of less than £6.5 million, a balance sheet total of less than £3.26 million and not more than 50 employees. (To be so defined, a medium-sized company must have a turnover of not more than £25.9 million, a balance sheet total of not more than £12.9 million and not more than 250 employees).

For statistical purposes however, the Department of Trade and Industry (DTI), now known as the Department of Business, Energy and Industrial Strategy (BEIS), tends to use the following definitions:(UK Government 2006b). Table 15 defines small companies in terms of employees and

therefore it is this definition that, despite its vagaries, is used throughout this study.

Table 15: UK Definition of company size using employee numbers

Micro firm: 0-9 employees;	Small firm: 10-49 employees
Medium-sized firm: 50-249 employees;	Large firm: over 249 employees

Source: UK Government (2014)

Whilst the European Union (EU) states that the definition of company size is a non-binding recommendation, it classifies companies in the following terms,

Table 16: EU classification of company size

Descriptor	Employees	Turnover €m	B/Sheet €m
Micro	<10	<2m or	<2m
Small	<50	<10m or	<10m
Medium	<250	<50m	<43m

Source: User Guide to SME Definition 2015.(European Union 2015, p.11)

Characteristics of small companies

Although small companies account for a significant proportion of business activity in the UK and across the globe (Hiebl 2012; OECD 2015b; UK Government 2015a), see Table 17, research relating to small firms is relatively scarce when compared to that pertaining to quoted companies (Tommaso and Dubbini 2000; Lynall et al. 2003a; Bennett and Robson 2004; Torres and Julien 2005; Carney et al. 2013).

Accordingly, there is a rich stratum to be mined in order to explore, and thereby develop, our understanding of the dynamics of this critical and growing sector.

Table 17: Estimated number of businesses in the UK private sector, associated employment and turnover (by size of business at December 2017).

	Number of Businesses	Employment	Turnover (£bn)
All businesses	5,695,000	26,723,000	3,739
All SMEs (0-249 employees)	5,687,000	16,147,000	1,905
Small and micro businesses (0-49 employees)	5,653,000	12,849,000	1364
1-9 employees	5,445,000	8,790,000	824
10-49 employees	208,000	4,059,000	540
50-249 employees	34,000	3,297,000	541
250+ employees	7,000	10,576,000	1,834

Source: UK Government, Department of Business, Innovation and Skills: Business population estimates for the UK and regions December 2017

Acs et al. (1996) refer to a speech given in 1939 by Winston Churchill when they choose to liken small companies to “a riddle wrapped in a mystery inside an enigma” (Churchill 1948, p.403) and in so doing reflect and amplify the complex and diverse nature that pertains to small companies (Culkin and Smith 2000; Haugh and McKee 2004; Kotey and Slade 2005). This so-called “riddle” encapsulates the personality-driven, reactive and loosely structured nature of small companies and whilst much of the literature views small companies through the formal lenses of structure, process and strategic orientation, researchers frequently assert that it is the influence, attitudes, idiosyncrasies and behaviours of the founding owner-manager that

determine the character and culture of a small company (Deakins and Freel 2006; Uhlaner et al. 2007c; Lobonțiu and Lobonțiu 2014).

Yet whilst management structures in small companies are frequently ad hoc and reactive (Coulson-Thomas 2007), the vagaries of unitary control in a personality-dominated structure seem to offer contemporaneous contrasts of opportunity and risk, simplicity and complexity and dynamism and stagnation (Hmieleski and Baron 2009). Hence Gibb and Davies (1992) note that the personal goals, beliefs and attributes of the founding owner-manager of a small company are instrumental in establishing the culture of the company, its orientation and its vision (Gibb and Davies 1992). However Gibb and Davies (1992) resist over-emphasising a characteristics model and propose a contingency approach “that concentrates not upon the characteristics of the entrepreneur-social, psychological, or economic - but his/her behaviours”(Gibb and Davies 1992, p.8). In so doing they acknowledge that different types of behaviour, traits, skills and competencies are required due to the degrees of uncertainty and intricacies in the marketplace.

Gibb and Davies (1992) add that knowledge and skills are underdeveloped in small companies and that as money invested in the business is, in some measure, derived from personal resources rather than from distant and impersonal investors this results in a parsimonious attitude towards expenditure that is not perceived as a direct profit-related expense. Training and development may be one such example where the returns on expenditure are viewed as uncertain and distant when compared with purchases of raw materials.

It is possible to conclude that Acs et al (1996) choose to liken small companies to an enigmatic conundrum as a consequence of a key characteristic of such enterprises: namely that of opaqueness and its resemblance to a black, impenetrable box. Small companies are not subject to external audit nor detailed reporting and disclosure in the wider public arena. Changes in reporting requirements with effect from January 2016,

requires that most small companies need only submit abbreviated financial information to Companies House in the form of a signed balance sheet although more detailed information must be provided for HMRC and the shareholders, who are in many cases the directors themselves (UK Government 2016). Consequently, in part due to restricted publicly available documents, empirical research into the inner workings and dynamics of small companies is limited and accordingly a pre-requisite to empirical research into these enterprises is the open-handed participation of the owner-manager.

Research published in “The Small Business Survey, 2014: SME employers”, suggests that small companies display particular structural characteristics, see Table 18 below. BISS survey 1,714 small enterprises, all of whom employ fewer than 50 people, from which a snapshot emerged regarding ownership, legal structure, resource management and financial performance. Rather than a focus upon the hygiene factors, others would stress the importance of the behaviours of the owner-manager and assert that these are a fundamental determinant of the culture and ethos of the business (Carter and Jones-Evans 2006; Deakins and Freel 2006; Uhlaner et al. 2007c).

Table 18: Key characteristics of Small Enterprises

Key characteristics of small enterprises	86% registered for VAT	71% Ltd company 61% family owned
Key characteristics of their owners and leaders	9% work from home	33% have 2 owners 61% with a women owner
Recent turnover and employment growth	86% level or growing in past year. 90% forecast to grow	79% were profitable in current year
Capabilities (ability to innovate, export, train)	83% had innovated new product or process in past year	26% had exported in past year. 80% had training

Accessing finance	69% had not sought finance in the past year. 72% had a good relationship with the bank	21% were unable to access finance in the past year.
Use of business support	59% aware of LEP as a support vehicle. 13% used mentors	51% sought business advice regarding growth

Source: The Small Business Survey 2014: SME employers, BISS

In contrast with the mainly quantitative data in the Small Business Survey, Deakins and Freel (2006, p.167) adopt an interpretivist perspective and posit that small firms are driven by three interrelated components of firstly, the entrepreneur, secondly the firm itself and thirdly through strategy, see Table 19. The characteristics approach advocated by Storey (2011) deals with the formal, objective, and visible aspects of the company but does not however see the axiological perspective of the owner-manager as a significant influence. Others however assert the primacy of the owner-manager's values as the dominant factor in determining the nature of the enterprise (Haugh and McKee 2004).

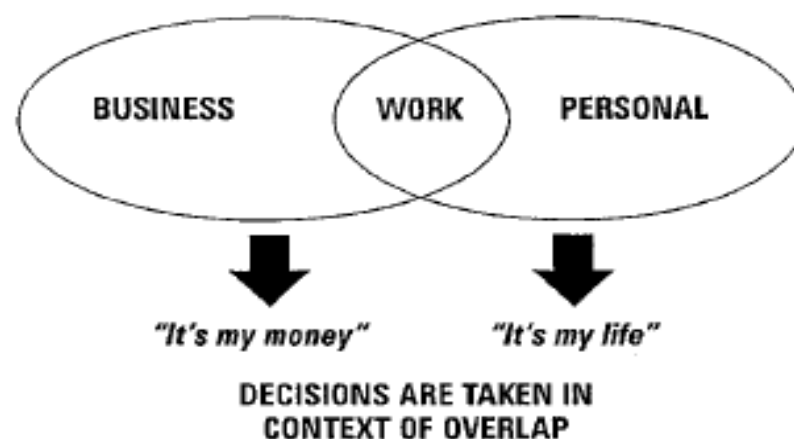
Table 19: Characteristics Approach

The Entrepreneur	The Firm	Strategy
Motivation	Age	External Equity
Education	Legal Form	Market Positioning
Managerial Experience	Location	New Product Introduction
Teams	Size	Management Recruitment
Age	Market/Sector	
	Ownership	

Source: Author based upon Deakins and Freel (2006)

Researchers find that owner-managers, whose values, “defined as the moral principles and beliefs or accepted standards of a person or social group” Collins Dictionary (2018a), are embedded within each and every element of a small firm can rarely be detached from the role of key decision-maker, for which read “owner-manager” (Haugh and McKee 2004; Kotey and Slade 2005; Carter and Jones-Evans 2006). Given that it is the owner-manager who ultimately decides upon such matters as the legal form and location of the business as well as funding and product related issues, it is axiomatic therefore that the lynchpin around which everything revolves is the owner-manager themselves, and as Culkin and Smith state, “the heart of the small business decision-making unit is essentially the owner/manager” (Culkin and Smith 2000, p.148). Culkin and Smith (2000) do however acknowledge that as the enterprise grows, decision-making and leadership will become decentralised and distributed as other directors and senior managers are appointed but nevertheless note that for the owner-manager and principal risk-taker, the business and personal spheres remain interlinked, see Figure 22.

Figure 22: Overlapping spheres in small companies



Source: Culkin and Smith (2000)

Overlapping of the twin spheres of “business” and “personal” is exemplified by the close coincidence of ownership and management interests residing in

the hands of the owner-manager (Long et al. 2005), or the cadre of owner-managers, which, in practice, limits the likelihood of behaviours associated with the widely-accepted notion of agency theory (Bennett and Robson 2004; Karoui et al. 2014). Hence, in view of the foregoing it may be argued that there is little need for outside directors to exercise the control function of the board. Nonetheless, Bartholemeusz and Tanewski (2006) point out that there is however an agency issue within small companies that adopts a different guise to the traditional model proposed by Jensen and Meckling (1976). What may be called “the issue of internal agency” occurs when salaried directors are appointed in addition to shareholder directors and notwithstanding their equal status in law, a *de facto* dyadic relationship is created where the two conjoined parties may assume differing attitudes on matters such as remuneration, expense allowances, pension provision, transport, socio-economic wealth, commercial objectives and matters of asymmetry of information. In particular, the question of deciding upon dividend distribution is a sensitive matter due to the intimate working relationships existing between shareholding-directors and non-shareholding-directors.

A further issue of overlap concerns the dual roles of ownership and control performed as both shareholder and director where limited liability status does little to protect the owner-manager who will, in either the role of shareholder or director in many cases, have given personal guarantees as loan collateral thereby increasing exposure to risk (Ang 1991) unlike his fellow salaried directors.

An additional and ever-present characteristic of small companies relates to the issue of specialisation. Unlike large enterprises, where specialists are to be found in areas such as Human Resource Management, IT, Marketing and Purchasing, small companies tend to be resource limited and accordingly owner-managers are intimately engaged, often as an enthusiastic and well-intentioned amateur, in a wide range of activities from the mundane and work-

a-day to matters of compliance and strategy (Culkin and Smith 2000; Carter and Jones-Evans 2006, p.419). This “Swiss Army Knife” approach is the norm in many small companies as Kotey and Slade (2005) note that In small companies, owner-managers undertake “most business activities themselves or directly supervise the performance of these activities.” (Kotey and Slade 2005, p.19).

Wright and Ashill (1998) identify a further characteristic of small companies - that of identity, whereby owner-managers exhibit a widely-held perception of uniqueness that in turn can lead to a fortress-like mentality where reversion to personal experiences is used to resolve threats and challenges.

Researchers recognise a further characteristic of small companies; that of the widespread use of support and information exchange networks in both a real and virtual sense (Karoui et al. 2014; Kitching 2015). Advice and information is sought from a variety of sources that include friends and family, staff, customers, suppliers, peers, professionals (Kuhn et al. 2016) and bodies such as the Chamber of Commerce (London Chamber of Commerce and Industry 2016) and the Federation of Small Business (Federation of Small Business 2016). Virtual networks may include special interest groups on Linked in and Facebook or more specialist advice from such as the Price Waterhouse Coopers, Governance Insight Center website (Price Waterhouse Coopers 2015) and professional bodies such as The Institute of Chartered Secretaries (ICSA The Governance Institute 2016). Given that sole directors in small companies are, *ipso facto*, constrained in seeking internal advice, it would appear that the value of formal, virtual and “pop-up” networks offers a potentially inexpensive and supportive bulwark to the, at times, beleaguered entrepreneur (Burn-Callander 2016).

Fragility and vulnerability of small companies

Whilst the overall tenor of The Small Business Survey 2014 is positive and reflects the natural optimism of the entrepreneur (Hmieleski and Baron 2009;

Storey 2011) small companies along the spectrum of size have significant weakness in infrastructure, systems and processes (Sullivan-Taylor and Branicki 2011; Gao et al. 2013) and are, according to Drummond and Chell (1994), fragile and lacking in resilience. They state that “Of all organizations at risk, small businesses are the most vulnerable.” (Drummond and Chell 1994, p.37). Atherton (2003), also commenting on the fragile nature of small companies, makes specific reference to owner-managers whom, he claims, perceive a high level of impotence with particular regard to events driven by the external environment and the consequential impact created by unforeseen hazards (Atherton 2003).

The literature furthermore suggests that, born from the inherent fragility of small companies, there is a widespread and recurring concern at the temporality and survival rate of such enterprises (Ricketts-Gaskill et al. 1993; Perry 2001; Spillan and Hough 2003; Runyan 2006; Vargo 2011; Kraus et al. 2013; Lampel et al. 2014; Herbane 2015; Kurschus et al. 2015). From start-up to demise is, for many, no longer than five years (Jones 2009; Storey 2011; Smit and Watkins 2012). Herbane (2015), reflecting upon the business interruptions on the limited lifespan of SMEs and the associated social consequences for particular sections of society, writes,

“The impact of acute business interruptions on SMEs is beyond doubt – not least given the continuing importance of SMEs in terms of economic growth, employment, innovation and opportunities for economic migrants and black and minority ethnic groups” (Herbane 2015, p.585).

Relatively few small and fragile businesses trading in an environment of complexity (Santana 1997; Perrow 1999) grow and develop to become medium-sized companies either through, in some cases, lifestyle choices made by owner-managers, or due to other factors such as investment and working capital limitations, (Ayyagari et al. 2007; Storey 2011) external hazard events or matters such as weak governance, strategy, skills, and

managerial incompetence (Mitroff and Anagnos 2000; Smith 2007). Highlighting what he refers to as a “one way bet” related to the high chance of business failure (Storey 2011, p.307), concurs with Frankish et al (2010) whose research into UK start-up companies and survival rates, based upon bank data, shows the temporal nature of many small companies, This is summarised in Table 20.

Table 20: New firm closure rates

	Year1	Year 2	Year 3	Year 4	Year 5
Closure rate %	14.9	25.1	22.3	14.1	13.2

Source: (Frankish et al. 2013)

Bodmer and Vaughan (2009) further underline the fragility of the small company and note how the business sphere and the private sphere are intrinsically intertwined thereby adding another layer to an already complex issue when they write that, with regard to family controlled companies, where crisis management planning is not a routine activity,

“Close relations between the entrepreneurial and the private sphere of the entrepreneur’s life are usual and can be an additional source for crisis emergence (e.g. the threat of a divorce).” (Bodmer and Vaughan 2009, p.41).

Expanding upon the link between the business and private spheres in small companies, Carter and Jones-Evans (2006) state that the penalties of failure in such enterprises vary with the degree of personal commitment, the availability of other income streams or employment opportunities and the nature of social provision. They stress that risk is a distinctive feature of a small company and that failure “usually involve[s] high personal cost”(Carter and Jones-Evans 2006, p.35).

Jones, referring to SMEs (which includes small companies) in the USA states,

“The history of SMEs is one where many have gone but few have succeeded. The average lifecycle of many SMEs is in the region of five years or less” (Jones 2009, p.3).

In a similar view of small businesses in the UK, the RSA Insurance report “Growing Pains” reflects the situation described in the USA by Jones and states that in the UK around 55% of new businesses do not survive beyond five years (RSA Insurance 2014). Likewise, Gray et al. (2013) state that after five years, fewer than 45% of businesses will have survived. They add that “small firms are more likely to die than larger firms”.(Gray et al. 2013, p.1).

Alluding to survival rates, a Higher Education Funding Council for England (HCFCE) report concerning small companies situated in Dorset, a rural county in the UK, states that between 2011 and 2014 there were 1,988 start-ups with 57%, (2% greater than the UK norm), remaining in business after three years had passed (Bonner et al. 2015). A total of 5.8% of companies within the same time period reached a turnover in excess of £1.0m thereby suggesting that there are significant barriers relating to achieving growth within the small company sector (Lee 2011).

Other researchers aver that such rates of attrition are not only destructive at a personal level (Drummond and Chell 1994; Bodmer and Vaughan 2009) or at the level of the enterprise itself, but, agglomerated have far-reaching implications for employment, wealth creation, supply chain fragility (Sterling 2011) and wider society (Spillan and Hough 2003; Kurschus et al. 2015). Emphasising this point, a UK Government briefing document reflects concern regarding the resilience of small companies, half of whom have no plan for managing a crisis or for recovery post-crisis event. (UK Government 2006c). Pedone (1997) states that 90% of businesses without a plan for recovery will fail within two years of a crisis event. Whilst undated evidence from the

website of Cross Sector Safety and Security Communications, (CSSSC) a national charity, asserts that commercial fire losses are on the rise and that 85% of SMEs suffering a serious fire never recover or cease trading within 8 months (The Cross Sector Safety and Security Communications Partnership 2014).

The 80% figure is referenced by Penrose (2000), citing Brown's article in the edition dated 1st October 1993 "Management Today" which posits that around 8 from 10 businesses will fail within two years after encountering a crisis. There is however little agreement in the literature, the relevant professional institutions and the trade bodies as to the veracity of this claim.

Summarising the status of small companies and their tendency towards fragility, the literature concludes that managers default to a reactionary posture (Budge et al. 2008); resources tend to be scarce (Aleksić et al. 2013); planning is weak (Corey and Deitch 2011); and that business skills (Minichilli and Hansen 2007) and governance are lacking (Ricketts-Gaskill et al. 1993; Herbane 2010; Faghfour 2015). Finally, with regard to the possibility of a crisis event, denial and disavowal trump any attempt to embrace reality and to acknowledge the consequences of a crisis (Mitroff 1989; Mitroff and Anagnos 2000).

Defining Corporate Governance

Having reviewed the nature of fragile small companies, the context in which this research is undertaken, the study moves on to consider the definition of corporate governance and the issues related to both its theory and practice.

Corporate governance (CG), the derivation of which is the Latin verb "*gubernare*" meaning to steer, is the broad term that describes the processes, customs, policies, laws and regulations that directs the boards of companies and organisations with regard to the means by which they administer and control their business. It is the processes by which boards of directors seek

to achieve the aims and objectives of the organization and manage often complex relationships with a wide range of internal and external stakeholders.

Whilst the foregoing paragraph seeks to summarise a plethora of definitions, amongst researchers, scholars and practitioners, there is a wide range of views as to the nature and scope of corporate governance. Some definitions focus upon the legal aspects, (Johnston 2004) others emphasise the relationships of the entity with a wider stake-holding and corporate social responsibility (Mason and O'Mahony 2008) whilst a third stream of thinking on corporate governance references the internal processes as a schema within which the board is encouraged, or required, to operate (Seidl 2006; Wymeersch 2006).

Pieper (2003) distinguishes between “goal-orientated” definitions which strive to determine the aim and outcomes of corporate governance whilst “task-orientated” definitions focus upon the tasks that must be undertaken in order to meet the ultimate goal. Pieper (2003) adds that within the nature of the tasks to be undertaken there is a dimensional aspect relating to scope that he identifies as being either “narrow” or “broad”, (Pieper 2003, p.3) the former of which are allied to a shareholder model whilst the latter is aligned to a stakeholder model. Table 21 illustrates the components of task, goal, narrow and broad within a two-by-two matrix and illustrates the nuances related to definitional terminology.

The absence of a clear and common definition of corporate governance is in part due to the differing national systems across a range of jurisdictions where corporate law affords specific and unique rights and obligations (OECD 2015a). Additionally, the weight of research into corporate governance rests upon the separation of ownership and control in a distributed shareholding with principals and agents as the central actors. However, La Porta et al (1998) claim that this model is a rare phenomenon and that it is concentrated ownership within and beyond families that is the dominant structure. Hence, there are structural limitations relating to

definitions of corporate governance that assume a model largely based upon the thinking of Berle and Means (1932). Such restricted cognition has failed to appreciate the subsequent and developing diversity of business ownership structures, management, direction and governance.

Table 21: Corporate governance orientation and scope

Orientation \ Scope	Narrow	Broad
Goal-Orientated	“CG can be defined as how owners’ interest is organized and exercised in order to influence in the strategy process” (Melin and Nordqvist 2002)	“CG is a system of structures and processes to secure the economic viability as well as the legitimacy of the corporation” (Neubauer and Lank 1998)
Task-Orientated	“A good governance structure is one that selects the most able managers and makes them accountable to investors” (Tirole, 2001)	“Corporate Governance is the system by which companies are controlled and managed” (Cadbury 1992)

Source: Pieper (2003)

According to Mason and Mahony (2008) the term corporate governance is first mentioned in 1981 although Sicoli (2013) states that it is used to indicate the structure and functioning of company policy. Irrespective of its antecedent, Becht et al. (2007) argue that,

“the term corporate governance derives from an analogy between the government of cities, nations or states and the governance of corporations”. Becht et al. (2007, p.834).

Whilst the early literature in this field views such “representative government” (Mead 1928, p.31) as an important advantage of the corporation when compared with partnerships, there appears to be little agreement on the purpose of corporate governance and the question of whose interest it serves in practice.

Despite the debate concerning its purpose, corporate governance has nevertheless become a commonplace term in the discourse of business (Keasey et al. 2005) and following the financial scandals involving companies such as Enron, Worldcom, Maxwell Communications, BHS, (and more recently Carillion) and others engaged in abuses of corporate power, interest in corporate governance has grown significantly (Becht et al. 2007; Webster 2007; Monks and Minnow 2011; Nordberg 2011; Tricker 2011). The financial crash of 2008 drew further attention to matters related to corporate governance and triggered, according to the Financial Reporting Council (FRC),

“widespread reappraisal, locally and internationally, of the governance systems which may have alleviated it”(Financial Reporting Council 2012, p.2).

The UK Corporate Governance Code (UKCGC), first published in 2014 and previously known as “The Combined Code”, emphasises the key features of corporate governance as being those of temporality, innovation and risk management together with its orientation towards goals and positive outcomes when it states that,

“The purpose of corporate governance is to facilitate effective, entrepreneurial and prudent management that can deliver the long-term success of the company.” (Financial Reporting Council 2014, p.1).

A shift in focus can be seen from the current version of the code when set alongside the task oriented view of its antecedent, “The Report of the Committee on The Financial Aspects of Corporate Governance”, published in 1992 by the so-called Cadbury Committee, that defines corporate governance in more prosaic and direct terms as,

“the system by which companies are directed and controlled. Boards of directors are responsible for the governance of their companies” (Cadbury 1992, p.12).

Irrespective of its terse tone and length of service, much of the literature continues to use this “classic” definition offered by Cadbury (Financial Reporting Council 2014, p.1) although the Institute of Directors points out that governance priorities today bear little resemblance to those under consideration at the time of the deliberations of Sir Adrian Cadbury and his committee (Institute of Directors 2016). A reader of this comment may well conclude that, notwithstanding the oblique and genteel language of the IOD, the underlying message clearly asserts that this definition has long-passed its “sell-by-date”.

In contrast to the UKCGC, the definition of Corporate Governance proposed by The Organisation for Economic Co-operation and Development (OECD) has at its focus, relationships and structural matters as the means of achieving and scrutinising performance objectives, stating that,

“Corporate Governance involves a set of relationships between a company’s management, its board, its shareholders and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and how the means of attaining those objectives and monitoring performance are determined.”(Johnston 2004, p.11).

The OECD does however, concede that, “There is no single model of good corporate governance”(Johnston 2004, p.13).

Differing from the OECD, The World Bank posits that a twin approach to corporate governance is needed with the first category highlighting the lived behaviour of companies, their performance, use of resources, innovation, financial structure, and relationships with shareholders and the wider stakeholders. The second category relates to the normative framework - the

rules under which companies operate. Those rules derive from the legal system, professional and institutional practices, market directives, and local regulations. (The International Bank for Reconstruction and Development/The World Bank 2005). Referring to the World Bank's view of corporate governance, McNutt (2010) describes corporate governance as,

“more of a process and less of an obligation on individuals to perform in an ethical way, that is, to be held responsible for their actions by fulfilling their duties” (McNutt 2010, p.742).

With this view, McNutt (2010) places the onus not upon the company, thought of by some as a legal fiction (Schane 1986), but upon individuals within the company, and as a consequence, the governance regimen is defined by a code of ethics and ingrained values, and not by an ethos of accountability and compliance.

Millstein (2014) in the preface to a Global Governance Forum publication offers a comprehensive definition based upon legal and compliance obligations whilst acknowledging the wider stakeholder model. He states that,

“Corporate governance refers to that blend of law, regulation and appropriate voluntary private sector practices which enables the corporation to attract financial and human capital, perform efficiently and thereby perpetuate itself by generating long-term economic value for its shareholders, while respecting the interests of stakeholders and society as a whole.” (Millstein 2014, p.Preface).

The Institute of Directors (IOD) reflecting, in part, the Cadbury Report, differs from Millstein (2014) and chooses to emphasise a prescription of managerial oversight, skills and ethical considerations that go beyond concern for shareholders alone and acknowledge that effective governance, whilst being multi-dimensional, does have, at its core, a compliance component,

“‘Governance’ means rigorous supervision of the management of a company; it means ensuring that business is done competently, with integrity and with due regard for the interests of all stakeholders. Good governance is, therefore, a mixture of regulation, structure, best practice and board competency.” (Institute of Directors 2004, p.5).

Given that the majority of IOD members run SMEs, this definition leans heavily towards the large corporation and appears to have little in common with the needs of its membership. The Financial Times offers yet another definition of corporate governance that incorporates a range of specific elements, some of which reflect the thrust of the Companies Act 2006 and in particular pay heed to the requirements of sections 171-177 of the act with regard to director duties. It defines corporate governance in terms of,

“How a company is managed, in terms of the institutional systems and protocols meant to ensure accountability and sound ethics. The concept encompasses a variety of issues, including disclosure of information to shareholders and board members, remuneration of senior executives, potential conflicts of interest among managers and directors, supervisory structures”. (Financial Times 2014).

Nordberg (2011) summaries corporate governance “in the narrow sense” as

“the mechanisms put in place inside companies to guide their actions and monitor their performance” (Nordberg 2011, p.5).

However, Nordberg (2011) adds a series of specific elements upon which scholars tend to focus when considering the nature of corporate governance – matters such as the role of the board, creating strategy, appointing managers, accountability and performance. Nordberg (2011) then goes on to assert that a central tenet of corporate governance is the relationship between shareholders, who have invested in the company, and the board of directors who are charged with a duty of care related to the efficient utilisation

of the capital supplied by shareholders. This definition, however, bears little relevance to most small companies.

Durst and Henschel (2014b) agree with Nordberg (2011) in that seeking a concise definition of corporate governance is difficult. They conclude that as corporate governance is a concept without clarity, it is preferable to use context-based variables to assess the optimum configuration. Where a degree of homogeneity of corporate governance standards exists such as in public markets, they contend that an appropriate, industry-driven code offers a practical solution to the question of definition. However, where no such homogeneity prevails, as is the case in the small company sector, a less rigid definition of corporate governance is required that is contingent and fit for purpose. Durst and Henschel (2014) therefore propose a sector-specific definition in respect of small private companies and, as such, acknowledge that corporate governance is not simply a means of control but also acts as a mechanism for the future health of the business, stating,

“the corporate governance system involves the structures, processes and relationships with relevant stakeholders that help owner-managed firms not only to control the firm but also to facilitate strategic change” (Durst and Henschel 2014b, p.18).

This view is analogous to Nordberg’s (2011) notion of corporate governance involving a triumvirate of the “steering wheel, the brake and the accelerator” (Nordberg 2011, p.7) and the IOD’s contention that corporate governance fulfils a dual role of both “watchman and pilot” (Barker 2008, p.3).

In summary, the UKCGC is the (non-statutory) instrument that sets the governance parameters to which companies with a premium listing of equity shares, regardless of whether they are incorporated in the UK or not, must adhere. Aguilera et al (2008) point out that the text of the code itself also makes a clear statement that corporate governance is not about “box ticking compliance” (Aguilera et al. 2008, p.488). Listing rules require companies to

either comply with the terms of the code or explain their non-compliance. The Financial Reporting Council (FRC), custodians of the UKCGC, summarises a definition of corporate governance in terms of a value-driven approach and makes clear the difference between governance and operational management, an issue that is particularly germane to unlisted, smaller companies (Abor and Adjasi 2007).

“Corporate governance is therefore about what the board of a company does and how it sets the values of the company. It is to be distinguished from the day to day operational management of the company by full-time executives”. (Financial Reporting Council 2014, p.1).

Corporate Governance in Small Companies - as one size does not fit all!

Levräu and du Bus (2014) challenge the normative view of corporate governance as a valuable resource and pose the question as to why corporate governance, if it has intrinsic value, is largely viewed with negativity within small companies and suggest that it is often linked to,

“establishing order where there is none; integrating discipline where there seems to be confusion; infusing fairness where there is egregious greed; and protecting shareholder interests where there is abuse” (Levräu and du Bus 2014, p.1).

They argue that for companies that view themselves as well-managed, ethical and vanilla in their purpose, corporate governance appears to be associated with bureaucracy, inefficiency and waste and as such, codes which are fundamentally designed for listed companies, and which appear to have failed in curtailing executive excess, offer an uninviting prospect.

In spite of referring to negative attitudes by owner-managers of small companies, Levräu and du Bus (2014) present the view that there is an inherent relationship between good governance and the long term success

of small companies. They claim that the purpose of appropriate governance models is,

“not to disarm the capable entrepreneur of his/her ability to take good decisions, but rather to strengthen those elements” (Levrau and du Bus 2014, p.1).

Levrau and du Bus (2014) see the value and contribution of corporate governance in a small enterprise as that of a stepping stone to business development and growth and preparation for the day when the capacity of the owner-manager will be such that a single-handed approach will not be sustainable and to continue as such could be a pre-cursor of failure. They suggest that the output of the resource that is corporate governance will be “increased discipline, professionalism and long term survival” (Levrau and du Bus 2014, p.1). This statement may appear to some to be an axiomatic, self-evident truth, yet in spite of the advantages claimed by proponents of corporate governance, amongst owner-managers of small companies there nevertheless remains a stubborn resistance towards the adoption of corporate governance principles at any level (Miller et al. 2013). In an article published by the Institute of Directors entitled “Why good governance is a must for SMEs” in its February 2017 edition of “The Director”, the contributor, Estelle Clark, counters the resistance that prevails in small companies concerning corporate governance and writes that “ it is as relevant for a company of five people as it is for 5,000.” (Clark 2017, p.17). Clark (2017) adds that she would like to see governance in small companies to be on “the agenda for every company, not just those listed on the Stock Exchange.” (Clark 2017, p.17).

Whilst much of the corporate governance literature is concerned with public companies, the vast bulk of UK businesses, both incorporated and unincorporated, are private companies (UK Government 2015a), the majority of which are small companies and sole traders. They operate in a variety of guises and are registered, in many cases, at Companies House as Limited

or Limited by Guarantee, Partnerships, Limited Liability Partnerships, Community Interest Companies, Industrial and Provident Societies or as unregistered, unincorporated Sole Traders.

Both the UK Corporate Governance Code and the abridged, less demanding, Alternative Investment Market (AIM) Code are primarily designed for, and apply to, listed public companies. These codes are an integral part of listing rules. Accordingly, Lane et al (2006) and Saxena and Jagota (2015) believe that adoption of such codes by a small company would be inappropriate and would likely incur a burdensome and bureaucratic overhead. Relating to small companies in the USA, Lane et al. (2006) pose a rhetorical question and ask,

“What is the significance of these governance reforms, de jure and de facto, for the publicly held corporation’s distant, smaller but economically robust brethren – namely the closely-held, family-owned business? Should these family owned entities be held to the same governance guidelines and standards that apply to those firms making up the ranks of the Fortune 500 for example?”(Lane et al. 2006, p.147).

Gibson et al. (2013) and Torres and Julien (2005) likewise note that there are consequences of ignoring the differences between small business and publicly quoted firms when considering matters of corporate governance due to the contextual differences and the economic inefficiencies generated, (Torres and Julien 2005; Gibson et al. 2013). Clarke and Klettner (2009), referring to codes designed for quoted companies support this view and argue that there is an inequitable financial burden through transaction costs related to corporate governance activities foisted upon smaller companies that creates economic inefficiencies, and that widely differing contexts do not warrant such an imposition, (Clarke and Klettner 2009).

Beyond the uncertain world of early stage growth when (or if) a company, having survived the pains of birth and infancy, moves through the cycle from “micro” to “small”, more formal corporate governance arrangements are however likely to feature as a matter of increasing interest to the board as a means of managing and mitigating risk (Ansong 2013). The adoption and implementation of an appropriate set of corporate governance principles “in toto”, or amended if need be, can be a critical tool in creating and enhancing resilience, developing resources and contributing to competencies (Abor and Adjasi 2007). The 2012 Chartered Management Institute survey into Business Continuity Management (BCM) concludes,

“Corporate governance remains the biggest external driver of BCM, with 42 per cent of managers highlighting it as a catalyst for their organisation implementing or changing BCM. ” (Pearson and Woodman 2012, p.4).

Despite the number and disparity of small companies and their productive contribution to the economy, there is comparatively little research into corporate governance in this sector (Lane et al. 2006; Uhlaner et al. 2007b; Siebels and zu Knyphausen-Aufseß 2012; Saxena and Jagota 2015).

Furthermore, Lane et al (2006) claim that not only is there a general lack of research into small companies but that, in particular, there is also a paucity of research relating to the usage and application of corporate governance codes within small companies (Lane et al. 2006).

The Paradigm of Elasticity in Small Companies

Despite the claims of limited research into the functioning of codes, researchers have nevertheless seen small companies as being somewhat homogeneous in their operating mode, (Brooksbank 1991) intuitive in their approach and dominated by the owner-manager (Torres and Julien 2005) thereby implying a universal yet informal *modus operandi* as to governance and strategy. However, Curran and Blackburn (2001) state unequivocally

that this is not the case, and tacitly support the paradigm of the elasticity of small companies and their concomitant fuzzy characteristics. They write,

“Small enterprises have an extreme range of forms. They operate in every sector of the economy, from computer software to candle-making and from insurance broking to instrument manufacturing. Entrepreneurs and owner-managers come from different genders and/or a wide range of ethnic, cultural and educational backgrounds and from every age group.”(Curran and Blackburn 2001, p.6).

Thus, corporate governance for this array of small companies represents something quite different in both meaning and application compared to the onerous and costly compliance requirements and standardised obligations of large organisations and the associated implications of agency theory (Pieper 2003; Gibson et al. 2013). Contingency theory proponents such as Aguilera et al (2008) and Uhlaner et al (2007) argue however that the governance regime for any given entity needs to be appropriate and relevant to both its circumstances and context (Uhlaner et al. 2007b). Uhlaner et al (2007) also point out that there are few formal contracts in small companies and that social control behaviour amongst directors and managers is prevalent. Hence they propose that governance procedures are based around stewardship assumptions rather than exercised through an alternative, prescriptive model (Uhlaner et al. 2007c).

Relationships and Socio-Economic Wealth

Vandekerkhof et al (2011) lend weight to the argument proffered by Uhlaner et al (2007) when they state that small businesses, and especially family firms, display normative isomorphism as a consequence of intimate relationships and, as such, the relevance of formal corporate governance such as that propounded across codes is diminished. Vandekerkhof et al (2011) however, point out that as the business grows and outside managers are recruited, so the significance of personal relationships and socio-

economic wealth diminishes as professionalism takes on the mantle of moderator and hence a new and more structured corporate governance paradigm emerges. Yet, preferring relevance and relationships to rigidity, Durst and Henschel (2014b) argue for a definition of corporate governance that is fit for purpose with regard to small companies and call attention to the danger of using concepts of corporate governance related to large corporations. Durst and Henschel (2014) then go on to define corporate governance in small companies as a system that,

“involves the structures, processes and relationships with relevant stakeholders that help owner-managed firms not only to control the firm but also to facilitate strategic change” (Durst and Henschel 2014b, p.18).

Stressing the need for a pro-active engagement in corporate governance practices in small companies, Saxena and Jagota (2015) believe that “governance is critical for smaller firms” (Saxena and Jagota 2015, p.55). However, other researchers challenge this view and claim that empirical evidence has failed to confirm that in family controlled small businesses in particular, there is a positive impact on performance as a consequence of good corporate governance (Seidl 2006). Researchers point to the distinctive characteristics of small, family-controlled companies that differ from those of managerial-controlled small companies (Gómez-Mejía et al. 2007; Chrisman et al. 2013) where, in the former, the importance of socio-economic wealth establishes legitimacy and can override the goal of economic gain.

Risk Management in Small Companies

Evidence from the literature strongly suggests that both the creation and management of a small company carries with it considerable risk and as such, there is a widespread and repeated consensus concerning the likelihood of business failure due to the inherent fragility of small companies (Ricketts-Gaskill et al. 1993; Perry 2001; Spillan and Hough 2003; Runyan

2006; Vargo 2011; Kraus et al. 2013; Lampel et al. 2014; Kurschus et al. 2015) where from inception to demise is, for many, no longer than five years (Jones 2009). Therefore, the question that such fragility raises is concerned with causality; it asks why and how unforeseen risks become a reality that precipitates a crisis which in turn leads to disruption and the potential demise of the business.

In what may be considered as a dismal and depressing comment on the resilience and longevity of small companies, Jones, referring to SMEs in the USA states,

“The history of SMEs is one where many have gone but few have succeeded. The average lifecycle of many SMEs is in the region of five years or less.” (Jones 2009, p.3).

Expressing a similar view of small businesses in the UK, the RSA Insurance report “Growing Pains” reflects the situation described in the USA by Jones (2009) and states that “in the UK the majority (55%) of new businesses don’t survive beyond five years”. (RSA Insurance 2014, p.7).

More recently, in the foreword of the report “Success in challenging times: Key lessons for UK SMEs”, Gray et al. (2012), state that, “Put simply, small firms are more likely to die than larger firms” (Gray et al. 2012, p.6).

In common with the work of Gray et al, (2016) a report from the Higher Education Funding Council for England (HEFCE) concerning Dorset-based SMEs (Bonner et al. 2015) states that between 2011 and 2014 there were 1,988 start-ups with 57%, (2% greater than the UK norm), remaining in business after three years had passed. Other researchers (Drummond and Chell 1994; Bodmer and Vaughan 2009) aver that such rates of attrition are not only destructive at a personal level or at the level of the enterprise itself, but agglomerated, have far-reaching implications for employment, wealth creation, supply chain fragility (Sterling 2011) and wider society (Spillan and Hough 2003; Kurschus et al. 2015).

Researchers studying business failure from an organisational perspective, generally argue that firms fail as a direct consequence of poor management decisions when faced with unanticipated events occurring in the external environment (Williams 2014) rather than the exogenous factors *per se*. Thus, the corollary to this premise is one of an internal management failure that may be attributable in part to an “information underload” (Bornstein 2007, p.40) and a subsequent failure to interpret and act upon that information.

In contrast with this view of failure as a function of internal disruption, others attribute causality to the volatility of a turbulent external environment that creates unbearable pressure on the firm resulting in its collapse (Zou and Stan 1998). Using the Schumpeter’s thesis of creative destruction, it may be argued that environmental turbulence emanating from technological change, economic or geo-political upheaval, legal and socio-economic mutations [see Aguilar (1967) PEST LIED analytical tool for wider application] are factors over which managers have little or no control and hence challenge the firm’s assumptions and plans, leading to its ultimate failure.

Williams (2014) claims that these opposing schools may be reconciled through an analysis of business failure using the lens of the RBV of the firm that posits, once a firm has acquired resources that are valuable, rare, inimitable and non-substitutable such resources will confer competitive advantage that, in turn, will ensure the survival of the firm (Barney 1991). Hillman et al (2009), in their review of resource dependency theory, point out that resources however, are not only restricted to the internal operations of a company but can be found in the external environment. Non-Executive Directors (NEDs) with extensive social networks and resultant significant social capital that could be utilised to enhance as well as protect the interests of the business serve as one such example of an external resource (Long et al. 2005; Clarysse et al. 2007). Membership of, and engagement with, trade and professional organisations could represent a further external resource with the potential to offer valued information and contacts (Uhlener et al.

2007c; Gao et al. 2013) although in their study of Greek farmers Koutsou and Vounuki (2012) found a prevalence of insular attitudes and a reluctance to participate with the role of the network broker being a crucial factor in fostering involvement.

From the literature, it could be claimed that once resources are not considered primarily as pertaining to the internal assets of the firm, the resource-based view of the firm could reconcile both perceptions as to the causes of business failure. From the analyses conducted by Lobontiu and Lobontiu (2014) relating to the predominance of tasks carried out by the owner-manager, the evidence points towards that key individual as a multi-functional resource and as such, in the event of demise or extended absence, such resource concentration could represent a threat to the business. Therefore, axiomatic to this issue is an imperative to ensure that a collective management team is functional.

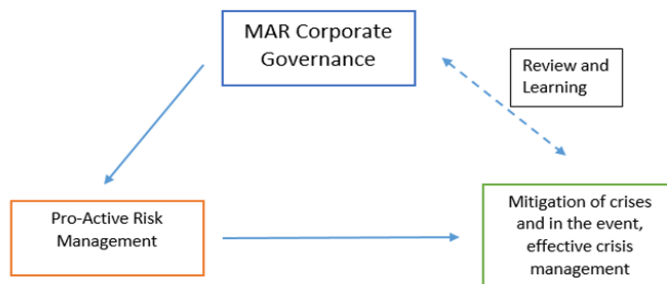
However, the evidence that emerges from the literature points unambiguously towards a widespread failure in small companies to introduce an appropriate governance regime; to analyse, consider and take preventative actions to minimise the risks faced and to prepare and test a crisis management plan (Gerber and Feldman 2002; Hough and Spillan 2005a; Budge et al. 2008a; Herbane 2013b).

Gumbs and Qian (2012) summarise the relationship between corporate governance, risk and crisis management and refer to failures in risk and crisis management. These failures, they claim, have heightened the attention given to risk and crisis management plans. They add that, in considering risk management, a company should adopt a holistic approach that incorporates risk management into its governance, and operational structure. They conclude that risks such as a product recall, loss of data, sudden illness or a natural event illustrate the interaction between risk and crisis management.

“A crisis is a risk that materializes and that has significant operational, financial, and reputational consequences. Where risk management is largely about identifying and managing risks, crisis management is a unique, distinctive concept that relates to the process by which companies prepare for crises before they occur and manage them when they do occur.” (Gumbs and Qian 2012, p.6).

Fouda et al. (2013) like both Gumbs and Qian (2012) and Borodzicz (2005) acknowledge that a crisis together with its managerial implications and offshoots is associated with a comprehensive risk management policy when they write that “Crisis is also a facet of Risk Management” (Fouda and Agrius 2013, p.21), echoing the earlier Figure 2 below.

Figure 2: Collibration Model of Corporate Governance for small companies



Source: Author

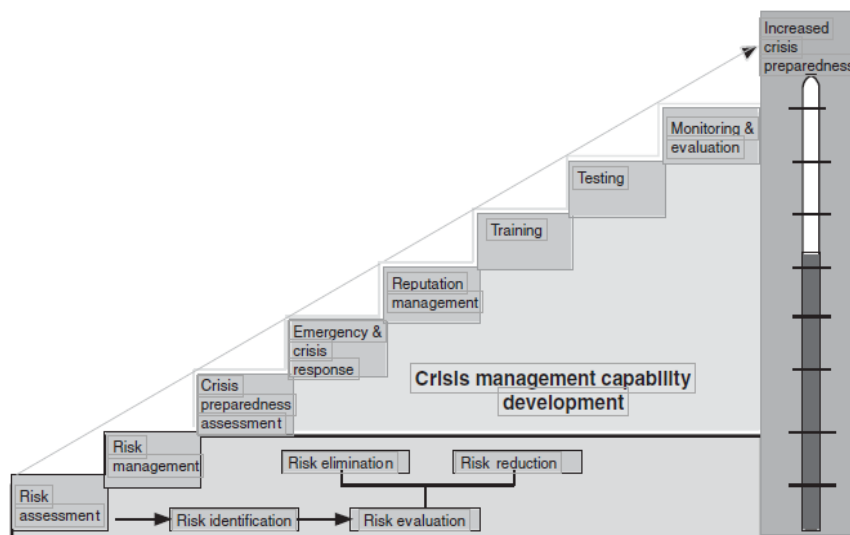
Sapriel (2003) illustrates this point in greater detail using modular step linkages between risk and crisis management, see Figure 23 overleaf, and employs a step-stage model to assess the level of crisis capability and preparedness (see also Mitroff and Anagnos 2000).

This shows a set of risk management activities occurring below the line in the role of pre-liminal underpinning, together with a further sub-strata involving constant issue monitoring of the internal and external environments.

In a tip of the hat to sedimentation theory the model also shows the overlay of managerial activity.

Crisis Management

Figure 23: Risk and Crisis Management Process



Source: Sapriel (2003)

Sapriel (2003) concludes that risk and crisis management must be institutionalised as a key business function and “embedded into the organisation’s corporate management system” (Sapriel 2003, p.2). Whilst Sapriel (2003) chooses to use the term “corporate management system”, Stein and Wiedemann (2016) propose a clear differentiation between risk management and risk governance and suggest that, “Risk governance bridges corporate governance and risk management” (Stein and Wiedemann 2016, p.1).

Stein and Wiedemann (2016) make the point that risk management is expanding from its origins in finance and now incorporates a diverse range of managerial and behavioural perspectives concerning risks. Consequently, they argue, a more universal view is needed that is akin to Enterprise Risk

Management (ERM) whereby risk management and risk governance are integrated and where ERM contributes to improved governance of the risk management system itself.

This is an area where further research would help to clarify the conceptual understanding and interrelatedness of corporate governance and risk that extends the notion of risk oversight as a function of corporate governance that is delegated to management for executive action rather than it be seen as an integrated close-coupled and holistic system that permeates the organisation throughout.

In spite of the most sophisticated risk management policies and procedures, organisations are likely, at some stage, to face a crisis where an event occurs that circumvents systems, that vary from the complex to the rudimentary, that are designed to eliminate such a possibility (Borodzicz 2005). Such crisis events are not infrequent occurrences and can create significant financial, commercial and reputational damage. For example, in 2016 alone, high profile cases appearing in the media include the VW emissions scandal (Magee 2016); Samsung's new phone igniting (Solon 2016); the corruption uncovered in world football's governing body, FIFA (Critchley 2016; Willgress 2016); the fine imposed for data breaches in Talk-Talk (Willgress 2016), and the treatment of workers at Sports Direct (Goodley 2016).

Due to the nature of the incidents and the stature of the those involved, the organisations in question face not only an internal operational crisis but are subject to media scrutiny, wide public condemnation and reduction in value (Shadbolt 2016). It is at this stage where much of the literature maintains that a planned response to the crisis is required and as Paraskevas (2006) argues, the question of crisis response is a topic that within the crisis management literature has received little attention. Bernstein (2017) summarises the contribution of pre-crisis denial to reputation and states on his website that,

“No person, no organization, has a reputation so fine it is immune to reputation threats from within or without. The arrogance inherent in denying this reality has been a major contributing factor to innumerable crises.”(Bernstein 2017).

Definition of a Crisis

The On-Line Oxford Dictionary defines a crisis as “a time of intense difficulty or danger” and “a time when a difficult or important decision must be made” (OxfordDictionaries. 2016) thereby furthering the notion of great pressure coupled with a significant threat that requires weighty action. The word crisis has its roots in the Greek word “*krisis*” meaning a judgement, choice or decision. The meaning varies depending upon the context and the academic discipline within which the term is used (Preble 1997). Whilst the trope is entrenched in mythological lore concerning re-birth and renewal such as the phoenix arising from the ashes, it is likewise etched in language. The original ancient Greek word “*krisis*” also translates into “*opportunity*”. In 2009, the White House chief of staff Rahm Emanuel was reported in “The Daily Telegraph” as commenting to such effect stating that “You never want a serious crisis to go to waste: [it’s] an opportunity” (Conway 2009). Although the preponderance of literature views a crisis as a negative event, Ouedraogo and Boyer (2012) in their work on small companies suggest that, on the basis of “what does not kill you makes you stronger”, a crisis can be a spur to enhanced resilience and an event upon which companies can capitalise as, [“or if” - authors text], they emerge from the turbulence they have weathered.(Asgary et al. 2012; Ouedraogo and Boyer 2012).

James A Robinson (1968) chooses to dismiss the idea of attempting to define “crisis” and opines that “Crisis is a lay term in search of a scholarly meaning” (Robinson 1968, p.510). Topper and Lagadec (2013) concur and conclude that seeking a definition is akin to chasing shadows and state,

“In essence, crisis is, and will remain, a wild and maverick reality, impossible to understand and grasp within frameworks shaped and built and stamped to contain stable and repeated phenomena.”(Topper and Lagadec 2013, p.8).

Topper and Lagadec (2013) go on to aver that the constant quest to deliver a typology concerning a stochastic phenomenon is an erroneous objective and appear to advise scholars to avoid imprisoning themselves inside gaols without walls. They state,

“To insist therefore on agreement as a pre-condition for studying ill-structured problems, is to ignore and to deny their basic nature. It is to misinterpret them ontologically.” (Topper and Lagadec 2013, p.8).

The scholars who are dismissive of prescriptive definitions of a crisis would appear to be disruptive outliers who are challenging the normative stance. Nonetheless, what appears to be a loose consensus concerning the definition of a crisis maintains that a crisis involves a period of discontinuity; that a particular system is under threat and that an urgent response by leaders is required under conditions of uncertainty. Within the ambit of these generic conditions, Boin (2006) concedes that it is possible to analyse and compare crises of a widely differing nature and within a variety of contexts.

Roux-Dufort and Lalonde (2013) and Pearson and Clair (1998), point out the problem of both defining a crisis and refining crisis theories due to the variety of perspectives scholars have taken and, accordingly have approached the issue from a range of disciplines that include history, economics, political science, psychology, medicine and philosophy. Shrivastava refers to these myriad definitions and perspectives as a “Tower of Babel” (Shrivastava 1993, p.33) opining that, “It also impedes development of consensus over policy and practical issues”(Shrivastava 1993, p.33). Shrivastava does however go on to define the characteristics of a crisis when he states that a crisis involves

“urgency of decision, large impacts, and system restructuring” (Shrivastava 1993, p.25).

Shrivastava (1993) also notes that in addition to a deluge of definitions there is a proliferation of “concepts, typologies, taxonomies, models, and frameworks for studying crises”(Shrivastava 1993, p.31). Such eclecticism may of course simply reflect what is claimed by researchers to be a growing interest in crisis management (Verbano and Venturini 2013). Zeik (2015) states that Shrivastava’s position remains valid and supports the view that “there is no universally accepted definition of a crisis” (Zeik 2015, p.37) pointing out that most of those who have attempted to so define have taken an organisational perspective that focus upon effects. Khodarhrami (2009), in contrast, contextualises the issue of crisis definition stating that,

“Definition of crisis management (CM) may differ from country to country and organisation to organisation due to variations in level of turbulence in different situations in different corners of the globe.”(Khodarhrami 2009, p.523).

From the perspective of those concerned with, and involved in, a crisis, Pearson and Clair (1998) who state that,

“[T]he crisis cannot be separated from the viewpoint of the one who is undergoing it.”(Pearson and Clair 1998, p.62).

Following Pearson and Clair (1998), it could therefore be readily construed that the ontological perspective associated with such a view is particularly germane to small business owners-managers’ who are party to the personal and intimate relationship that exists between the business and the individuals involved (Herbane 2013b). Budge et al. (2008) prefer to adopt a more existentialist view of a crisis that focusses on survival as well as incorporating notions of perception, and state that a crisis is,

“any action or failure to act that interferes with an organisation’s ongoing functions, the acceptable attainment of its objectives, its viability or survival, or that has a detrimental personal effect as perceived by the majority of its employees, clients or constituents.”(Budge et al. 2008a, p.3).

Whilst Pearson and Clair (1998) define a crisis as an event that involves unexpectedness, subjectivity and perceived impact to both the corporate entity and the individual, stating that crises are,

“low probability, high-impact situations that [are] perceived by critical stakeholders to threaten the viability of the organization and that [are] subjectively experienced by these individuals as personally and socially threatening’ (Pearson and Clair 1998, p.66).

A convincing argument could be made that this definition takes into account both an objective and subjective perspective that acknowledges the importance of personal ontologies and recognises that individuals will define a crisis through an intimate lens. In other words, one person’s major crisis is another person’s minor incident.

The individualisation of crisis perception could be seen as an extension of the overlapping terminologies that pervade the literature. Herbane (2010), and Drennan and McConnell (2007) posit that there is not a universally accepted definition of the term “crisis”, with Boin (2006) suggesting within a chapter of an edited book that the term is “used in an oddly offhand manner” (Smith and Elliott 2006, p.86) preferring to consider a disaster as a form or outcome of a crisis. Herbane (2010) furthermore acknowledges that the lexicon is nebulous, varied and ill-determined in prescribing the boundaries of the term, but accepts that it may encompass “disasters, business interruptions, catastrophes, emergency or contingency” (Herbane 2010, p.46).

Drennan and McConnell (2007) attempt to delineate the language of risk, crises, disasters and associated terms writing,

“Risk – the chance of something happening that will have an impact on objectives; often specified as an event or set of circumstances and consequences (both positive and negative) that flow from this.

Risk management – the processes involved in managing risk in order to achieve objectives, by maximizing potential opportunities and minimizing potential adverse effects.

Risk management process – the systematic application of management policies, procedures and practices to the tasks of communicating, establishing the context, identifying, analysing, evaluating, treating, monitoring and reviewing risk.

Business or service continuity planning – the element of risk management designed to enable organizations to recover quickly from an adverse event and ensure customers or clients continue to receive expected services.

Crisis – a situation or episode in which different actors and groups seek to attribute meaning to a particular set of circumstances which pose extraordinary threats to an individual, institution and/or society.

Disaster – a crisis with a bad ending (Boin 2005)” (Drennan and McConnell 2007, p.2).

The definitional dilemma is further compounded as writers offer solutions to questions related to the meaning of the term that encapsulate causality, internal and external processual dynamics and the manner in which the crisis is managed. For example, Irvine and Anderson (2004) argue that a “disaster” becomes a “crisis” when management believe they are unable to deal with the situation. In contrast, both Fink (2002) and Davies and Walters (1998) state that the ability to manage a crisis will limit the chance of a disaster occurring. Exemplifying the interchangeability of terms, Gerber and Feldman (2002) use “crisis” “catastrophe” and “disaster” as synonyms when they write,

“No matter how large or small the catastrophe, the key to success in developing a good crisis management plan is to assemble a disaster management team.” (Gerber and Feldman 2002, p.61).

With this and other examples of confusion, it is possible to conclude that the imprecision throughout the literature regarding the definition of a crisis has resulted in the transposition, mutability and interchangeability of a congeries of terms that include issue, incident, disaster, dilemma, catastrophe, tragedy, calamity, upheaval, contingency, emergency and misfortune (Preble 1997). Britton (1986) alludes to types or levels of different kinds of “social crises periods”, or “collective stress events” where entire communities are affected using terms such as ‘disasters’, ‘emergencies’ and ‘accidents’. Such a multiplicity of terms demonstrates the inability to distinguish one type or severity of event from another. In an attempt to create a typology and delineate the definition and criteria pertaining to a crisis and a disaster Shaluf et al (2003) conclude that the two terms are not interchangeable but are related, stating that “a crisis is more comprehensive than a disaster” (Shaluf et al. 2003, p.31) This definitional issue offers opportunities for further research in order to seek clarification, demarcation and a broad paradigmatic consensus or, if not, an acceptance of imprecision.

In addition to definitional diversity, the extant literature is equally imprecise in circumscribing the nature and characteristics of a crisis. t’Hart et al. (2001) state that,

“Crises are no longer written off as freak incidents, but become labelled increasingly as symptoms of underlying problems. With ‘chance’, ‘nature’ and ‘God’ no longer accepted as excuses, crises become policy fiascos almost by definition.” (t Hart et al. 2001, p.184).

and in so doing t’Hart et al. (2001) signal their view of an emerging phenomenon involving macro-shifts in the perception of crises that place them alongside managerial and governance policy failures as instruments of

causality ahead of those attributable to catastrophic externalities. Contrasting with the view of t'Hart et al. (2001) and taking a somewhat fatalistic perspective regarding causality, González-Herrero and Pratt (1996) follow Perrow (1999) and state that

“not every crisis can be avoided. Some accidents or natural disasters are impossible to avert” (González-Herrero and Pratt 1996).

The French academic Patrick Lagadec is highly critical of current crisis models believing that, in essence, they reflect a view reminiscent of 18th century naturalists whereby residual risks only develop once risk controls have been breached hence resulting in residual accidents. He argues that the crepuscular risks have largely been defeated but the complex and volatile world we now inhabit demands models that integrate with “*panta rhei*”, shifting sands and intrinsic mutability to address the cataclysmic crises that will occur and summarises that “in a nutshell, rupture becomes the name of the game” (Lagadec 2017). Topper, writing with Lagadec (2013) propose an ontology that is dismissive of a linear and stable vision of the world that they claim is inconsistent with current thinking related to crises and go on to aver that top-down or bottom-up linear models based upon control and command should be superseded by an approach that embraces fractal theory. Fractal theory considers invariants, the elements that have not changed, and what elements remain dynamic thereby leading to a managerial approach that is led by first responders rather than dominated by the functional hierarchy and normative decision making. This new area of research appears to offer opportunities for greater understanding of the nature and management of crises and whilst it is not within the parameters of this study, this novel approach nevertheless offers interesting possibilities.

Crises and Small Companies

The literature is in broad agreement, but with dissenters not absent, suggesting that, firstly, crisis management planning is under-researched in

small companies (Spillan and Hough 2003; Runyan 2006; Herbane 2010; Sullivan-Taylor and Branicki 2011; Herbane 2013b; Vrečko and Širec 2013); secondly, that there is a lack of research into corporate governance and risk and crises in small companies (Lampel et al. 2014) and thirdly, that once a risk becomes a reality, crisis management planning aids chances of survival, (Conant and White 1999). Daily et al (2003) state categorically that across firms of all sizes,

“Relatively little research has been devoted to the effective management of the firm in crisis, financial or otherwise.” (Daily et al. 2003, p.377).

As has been described in detail earlier in this review, the literature further concludes that a crisis disproportionately affects small businesses (Sterling 2011; Vargo 2011; Herbane 2013b; Verbano and Venturini 2013; Doern 2016) and that they are more exposed in the event of a major perturbation than are their larger counterparts (Koontz-Traverso 2001; Corey and Deitch 2011b). Yet paradoxically, despite their vulnerability, small companies tend not to have formalised crisis management planning processes (Perry 2001; Runyan 2006). Penrose (2000) concludes that, “The penalties, however, for complete unpreparedness can be catastrophic to any company” (Penrose 2000, p.157).

Gumbs and Qian (2014) add to the view expressed by Penrose (2000) and state that,

“A well-managed crisis is not only a disaster avoided, but also an opportunity captured. As oversight of risk management structures continues to evolve and become embedded in corporate governance structures, boards also should focus on crisis management, which relates to how companies plan for the occurrence of risks that cannot be eliminated.” (Gumbs and Qian 2012, p.1).

Their view accords with the original meaning of “*krisis*” and would seem to incorporate the notion of a crisis as a phenomenon that is dyadic in nature and offers opportunity and enhancement as well as the potential for significant harm. It also suggests that planning for a crisis should be an embedded element of board activity.

In support of this view, the extant literature finds that, when managers take a pro-active approach to crisis management planning, both crisis prevention and post-crisis survival rates lead to better outcomes (Fink 2002; Spillan and Hough 2003; Vargo 2011). According to Chrisman et al. (2013), one such better outcome is related to family firms who tend to have greater survival rates compared with non-family firms due to weightier social capital, lower agency costs and superior efficiencies (Chrisman et al. 2013). The implications of Chrisman’s (2013) view therefore suggest that small, non-family companies should invest more time and energy in developing their own social networks and in so doing build communities of common practice leading to appreciating social capital that Chrisman’s (2013) research appears to show is an effective defence mechanism.

Spillan and Hough (2003) express concern at the lack of crisis management planning in small companies in their study of 162 SMEs of which 94 of the sample employed fewer than 25 people. They and others (Hollman and Mohammad-Zadeh 1984; Miller 1992; Falkner and Hiebl 2015; Brustbauer 2016) refer to the paradox that reveals small companies view crisis planning as a matter of minimal concern, despite the volume of evidence suggesting that unpreparedness is likely to lead to significant disruption and possible dissolution.

Summary of the literature review

It could be argued that, with relatively few exceptions, the literature is focussed upon corporate governance in large organisations, agency theory, “top management psychology” (Ricketts-Gaskill et al. 1993; Spillan and

Hough 2003; Runyan 2006; Vargo 2011; Herbane 2013b; Parnell 2014) and high profile crises. Current research tends to ignore corporate governance, risk and crisis management in small companies where directors function at an operational level and often lack the planning abilities and resources of those in larger companies. To view “risk and crisis management” as being homogeneous in scale, scope, quality, preparedness and structure would be a failure to recognise the differences in resources across between the large enterprise and the small company.

The limited literature paints a bleak picture of unpreparedness, denial and ineffectual leadership in small companies regarding both the assessment and recognition of risk and the prevention and management of crises where powerful memes pervade the surface and sub-structures of management and organisational culture. Memes in this instance are defined as elements within, a culture or system of behavioural norms that pass from one individual to another by imitation, peer pressure, beliefs, memories, practices and history. Memories describe such history, values and beliefs as contributing towards the fatalistic attitudes exemplified by denial (Mitroff and Anagnos 2000). They add that such memetic influences can, and do, limit and constrain creative paradigm shifts towards crisis management and reflect Smith’s (1990) view that the starting point is more a “crisis of management” rather than the “management of a crisis” (Smith 1990, p.271).

A review of the relevant literatures leads the researcher towards a conclusion that there are clear and distinct gaps in the body of knowledge related to the application and functioning of corporate governance in small companies. Furthermore, gaps are also evident in our understanding of how corporate governance contributes to risk and crisis management in small companies. The rationale related to these gaps is detailed below and a table of milestone contributions to areas of research relevant to this study is contained in the appendices.

Research gap 1: corporate governance in small companies

Despite the significant contribution made by small companies to economies across the globe (Maassen 2004; van den Heuvel et al. 2006; Kushnir et al. 2010; Farooq 2014; Falkner and Hiebl 2015; Herbane 2015) relatively few studies have been completed that examine corporate governance and its functioning within small companies (Huse 2000; Lane et al. 2006; Voordeckers et al. 2014; Ediriweera et al. 2015; Ediriweera 2015; Ponomareva and Ahlberg 2016).

Unlike their larger counterparts, small companies tend to adopt a dismissive attitude towards corporate governance and its associated functions (Bannock 2005) preferring to focus upon operational imperatives (Faghfour et al. 2015; Faghfour 2015) and, constrained through limited resources, they incline towards vulnerability (Drummond and Chell 1994). However, the marginalisation of corporate governance by directors of small companies (Clark 2017) prevails despite widespread agreement that the implementation of appropriate governance procedures within a business is, as Steier et al. (2015) suggest, “a key determinant of success” (Steier et al 2015 p.266).

In spite of the need for greater research into the theory and practice of corporate governance in small companies, the literature points to limited interest from researchers due in part to the problems of access and an unwillingness on the part of owner-managers to invest time in what they perceive as non-productive activities. This study therefore seeks to penetrate and illuminate the umbrae, penumbrae and antumbrae enveloping corporate governance in small companies.

Research gap 2: corporate governance and risk in small companies

The literature contains an abundance of research related to corporate governance and risk with the dominant themes being those of insurance and the economic risks facing large corporations and institutions within public markets (Belinskaja and Velickiene 2015). The nature of public markets is

such that listing rules requires compliance with a code of corporate governance (or in the UK, an explanation of any deviances) in which risk management is a universal requirement. That is not the case regarding small companies where owner-managers' tend towards ambivalence regarding both corporate governance and risk management. This area of research receives relatively little attention from either practitioners or researchers. Research conducted by Ansong (2013), Brustbauer (2013), Gao et al.(2013), Lukianchuk (2015) and Falkner and Heibl (2015) points to significant gaps in the literature with regard to the relationship between corporate governance and risk across a wide typology in small companies in particular (Garg and Weele 2012). This study explores owner-manager and director attitudes to the corporate and personal risks they face.

Research gap 3: corporate governance and crisis management in small companies

Appreciation of the fragile character of the small company sector is widely acknowledged, yet corporate governance and its contribution to crisis management remains a peripheral research stream (Bennett and Robson 2004; Gilmore et al. 2004; Lane et al. 2006; Al Lahham 2015; Sunjka and Emwanu 2015; Doern 2016). Alpaslan et al. (2009) recognise the link between corporate governance and unanticipated events and comment upon the gap in the literature, stating that,

“scholars know little about corporate governance approaches that enable firms to prevent crises from happening or to recover from them successfully” (Alpaslan et al. 2009, p.38).

This study explores the reasons why crises occurred within the four enterprises taking part in this multiple case study and delves into the attitudes and beliefs of executives responsible for the long-term success of the business and the cognitive dissonance that places crisis management planning on the shelf of peripherality.

Justification for the study and contribution to the body of knowledge

There are gaps in the literature that require addressing related to the issue of how corporate governance, (a term rarely appearing in the lexicography of owner-managers in small companies (Crossan et al. 2015)), can contribute to addressing areas of potential risk, and in the event of a crisis occurring, to prompt a comprehensive response repertoire aligned to a short-circuit cycle from the pro-dromal phase to crisis resolution (Fink 2002). There are no current studies that take a holistic view of corporate governance, risk and crisis management. Furthermore, the literature does not scrutinise the structural relationships that exist between corporate governance, risk and crisis management together with the invisible halters that bind this critical triumvirate.

Given that there is a lacuna, this study makes a substantive contribution to the body of knowledge in three areas. Firstly, it identifies the varying dispositions of owner-managers within small companies concerning the role of corporate governance; secondly this study offers an insight into the functioning of corporate governance in small companies and the means by which boards analyse and manage risks; and finally, the study sheds light upon the owner-manager's attitude towards crises and their ability to make a timely and planned response to a crisis event.

Research Problem

The literature review has been central in the development of a provisional conceptual model, see Figure 24, and the subsequent research questions.

Figure 24: Provisional Conceptual Model for Corporate Governance, risk and crisis management in small companies– the endogenous and exogenous landscapes.



Source: Author

In developing this conceptual model, that is specific to small companies, the broad backdrop of the collibrational approach remains as the strategic context within which corporate governance is examined. The literature points towards widespread failure on the part of small companies to introduce good practice corporate governance, with or without a code as guide, (Drummond and Chell; Crossan 2015) and to analyse, consider and take preventative actions to minimise the risks faced or to prepare and test a crisis management plan (Gerber and Feldman 2002; Hough and Spillan 2005a; Budge et al. 2008a; Herbane 2013b). The provisional model which emerges from the literature, see Figure 24, shows that at the beating heart of a small company is the owner-manager whose beliefs and attitudes are ubiquitous within the business (Curran and Blackburn 2001; Kotey and Slade 2005; Torres and Julien 2005; He 2008; Bridge and O'Neill 2013; Smit and Watkins 2017). In a small company, it is neither a code nor a protocol that drives governance, but rather it is those same beliefs and attitudes that are the impetus behind the level of intensity and engagement with corporate governance and its constituent elements of risk and crisis management (Lobontiu and Lobontiu 2014; Spiers 2017).

Although the internal perpetual dynamic determines effective governance, associated with the process, there are peripheral factors that impact upon those quadrangular linkages. There are societal values that, through osmosis, influence the tenor of the company (Haugh and McKee 2004; Carter and Jones-Evans 2006) as do commercial pressures that foster primacy upon operations and process designed to ensure survival (Crossan et al. 2015; Falkner and Hiebl 2015). Likewise, the pace of change and the nature of cultural context touches the epidermis of the company (Gibb and Davies 1992; Deakins and Freel 2006) as does the legacy of memories which are defined as,

“the power or process of reproducing or recalling what has been learned and retained especially through associative mechanisms and the store of things learned and retained from an organism's activity or experience as evidenced by modification of structure or behavior or by recall and recognition” Merriam Webster on line dictionary (2018b).

It is memories that both consolidate and contribute to changes in behaviours and perspectives (Mitroff and Anagnos 2000; Topper and Lagadec 2013; Hopkins 2013). Brandström et al. (2004) add that when faced with uncertainty, people will search their memories and their knowledge base for situations that can inform and illuminate a given situation. They claim that both policy-makers and organisations will draw upon the past, however idiosyncratic the current predicament may seem, to find hints about what to do and what to avoid. In that sense, they govern by looking back. (Brandstrom et al. 2004).

In summary, small companies are fragile and are particularly threatened as a result of weak or non-existent governance systems and a strong reliance upon the owner-manager whose disposition, attitudes, beliefs and values permeate the business. His or her disposition is the key endogenous factor that have led to the development of the model that emerges from the literature review. Other factors, such as the influence of memories, contribute to

policies and procedures that are rooted in experiences, often with negative associations, and are as such significant drivers of change. The impact of wider changes in society illustrated in the model have a slow-burn impact on a small company some of which are attitudinal in nature, some driven by technological change and others by a shift in legal and quasi-legal matters. Wrapped within these exogenous and endogenous influences and an increasingly complex environment is the need for stable yet appropriate governance structures. The over-arching research question therefore, is "How can corporate governance contribute to risk and crisis management planning in small companies?"

Chapter 3-Research Philosophy, Strategy and Methodology

“Values inhere in every human project; objectivity is a chimera.” Lincoln and Guba (2016 p.41)

Overview of the chapter

This chapter introduces the research philosophy, research strategy, research methodology and methods used to undertake this study and describes how these elements have informed and guided data collection, analysis and the development of a “temporary construct” or substantive theory.

The essential background and fundamental thinking regarding different approaches to case study strategy are outlined and interrogated. Subsequent sections re-state the research aims that have evolved over the writing of this thesis and describe the data collection processes for this study which comprise semi-structured interviews, document analysis, observation and a preliminary exploratory questionnaire.

The chapter concludes with an exposition of the analytical approach taken regarding the empirical data.

Research Philosophy

According to Howell (2013),

“Research involves understanding the relationship between theory, philosophy (ontology and epistemology), methodology and methods” (Howell 2013, p.32).

Research philosophy is aligned with an epistemological view concerning the development of knowledge and the nature of that knowledge together with a recognition that the researcher approaches the subject with a unique ontology that incorporates a series of “philosophical assumptions” (Creswell

2013, p.19) and distinctive beliefs about the nature of reality that underpin the research strategy and methodology.

Coexisting with those assumptions, the researcher's axiological stance – his or her values, beliefs and ethics - will influence the research (Creswell 2007; Farquhar 2012) as the assumptions and ideals of the researcher are considered to be contributory factors to "researcher positionality" (Sikes 2004) and, dependent upon the type of research, may be germane to the research question and the nature of data collection, analysis and interpretation (Denzin and Lincoln 1998). As such, there is widespread agreement amongst scholars that researchers acknowledge the dominant philosophical paradigm of inquiry will strengthen the rationale for the chosen methodology (Jackson 2013).

According to Rose et al.(2015), the debate regarding the merits of differing philosophical approaches has been a divisive issue amongst scholars for centuries. Remenyi et al (2009) concur with Rose et al. (2015) and assert that, for millennia, the dominant research philosophy is that of empiricism which combines the notion that knowledge can be tested and must comprise observable and recurring patterns. For Howell (2013), this doctrine incorporates the underpinnings of positivism, a term used to describe experimentation and scientific discovery techniques albeit the emergence of the term was some while after the birth of the modern science that many associate with the work of Galileo (b.1546), Kepler (b.1571) and Newton (b.1643).

Around 1844, Comtè (b.1798), identified the term positivism (Howell 2013), that when used in the social sciences, looks to apply the hypothesising and experimental methods of the natural scientist and seeks to establish causality and consequential immutable laws through observation and measurement using deductive testing. Comtè contested that just as the physical world operates within the confines of gravity and other absolute laws, so does society operate. Accordingly, positivism is closely associated with

objectivism, quantitative techniques and experimentation and is frequently used synonymously with empiricism, an exegesis which has been the subject of criticism from both philosophers (Hobbes b1588; Hume b1711) and researchers' (Cloke et al. 1991; Hume 1993; Howell 2013; Duncan 2017).

The philosophical basis of positivism can be summarised as follows; that the social world exists externally and its properties can be measured through objective methods, rather than inferred subjectively, through sensation, reflection or intuition (Easterby-Smith et al. 2002). A "positivist" researcher views the world as an external and objective reality and thus seeks to ensure that research undertaken is value-free, a point underscored by Kieran (1997),

"Positivism is marked by the final recognition that science provides the only valid form of knowledge and that facts are the only possible objects of knowledge; philosophy is thus recognized as essentially no different from science" (Kieran 1997, pp.115-116).

Habermas (1992) is, however, critical of those physical and natural scientists who are dismissive of approaches other than positivism and who claim that social science research is therefore lacking in rigour. The incessant allegations of the positivist schools arise as a consequence of social science researchers frequently assuming a non-positivist ontology that views the world through a prism that is subjectivist and attributes meaning through the perceptions and subsequent behaviours of social actors. Remenyi et al. (2009), like Habermas (1992), are also critical of the positivist attitude towards non-positivism and make a barbed riposte to the natural scientists when reminding them of some of their less than glorious antecedents, included amongst which are phlogiston theory, alchemy and astrology!

Preceding Remenyi et al. (2009), von Foerster (1981) claims that "observations affect the observed so as to obliterate the observer's hope for prediction" (Von Foerster 1981, p.258) whilst von Glaserfeld (1995) adds that,

“Objectivity is the cognitive version of the psychological blind spot: we do not see what we do not see. Invoking objectivity is abrogating responsibility – hence its popularity.”(von Glasersfeld 1995, p.149).

Within social science research, the fractious debate relating to philosophical positionality is predicated upon fundamentally differing ontologies and epistemologies (Wahyuni 2012), the former being concerned with an individual’s perception of the nature of reality and the latter usually referring to the question of the validity of knowledge and how we know what we claim to know. According to Farquhar (2012), the central question related to epistemology is: “What must be added to beliefs to convert them into knowledge?” (Farquhar 2012, p.17).

This contentious deliberation can be further illustrated by the polarisation of the contrasting stances of objectivism and subjectivism and the corresponding nomothetic and ideographic ontologies. In social sciences the nomothetic model tries to find independent variables that account for the variations in a given phenomenon (e.g. What is the relationship between the Resource Based View of Strategy and Free Cash Flow?) The idiographic model focuses on a holistic, in-depth understanding of a single case (e.g. What has brought about the failure of Company A?).

An objectivist epistemology assumes that data collection takes place through value-free and theory-neutral observations, whereas a subjectivist epistemology asserts that knowledge of social phenomena is created from the unique perceptions and consequent behaviours of social actors (Maykut and Morehouse 1994).

Hence, Burrell and Morgan (1979) state that researchers are obliged to make core assumptions concerning the nature of science and the nature of society and accordingly position themselves within a philosophical dimension. Furthermore, Burrell and Morgan (1979) add that even within the parameters of core assumptions there are differing views of society which may range

from, for example, a Marxist perspective to a Neo-Conservative interpretation, and such a wide spectrum of opinion exemplifies and emphasises the extent to which individuality permeates the subjectivist paradigm.

Easterby-Smith et al.(2008) however, choose to describe the contrasting traditions concerning the way in which social science research is conducted as being those of positivism and social constructionism which each, they claim, has been “to some extent elevated into a stereotype, often by the opposing sides” (Easterby-Smith et al. 2008, p.57). They define social constructionism, one of the group of approaches that Habermas (1970) refers to as *interpretive* methods, and a paradigm developed as a response to positivism, as, “the ways that people make sense of the world especially through sharing their experiences with others” (Easterby-Smith et al. 2008, p.58).

Pierre Bourdieu (1980), believes that the schism between the objectivist and subjectivist school could be overcome and that the antagonism between the two is an artificial construct as both exist within a dialectical relationship.

In pursuit of this liaison, Bourdieu (1980) develops the notions of *habitus* - (Bourdieu 1980, p.104) the disposition by which we view the world, *capital* – our economic, social and cultural wealth, *field* –societal rules and norms and *doxa* – the combination of the habitus, capital and field found in the natural attitudes and opinions encountered in everyday life.

Bourdieu (1980) argues that the interactions of that triad, which contains both subjectivist and objectivist ideologies, works in tandem and produces a meaningful gestalt. Despite his scholarly work, there still remains few touch points between the opposing schools of thought.

Holden and Lynch (2004) summarise this polarisation and illustrate the commonly used, and interchangeable, nomenclature, see Table 22,

prevalent in identifying the paradigms that reside within objectivist and subjectivist philosophies.

Table 22: Alternative Philosophical Paradigms

Objectivist	Subjectivist
Quantitative	Qualitative
Positivist	Phenomenological
Scientific	Humanistic
Experimentalist	Interpretivist
Traditionalist	Constructivist

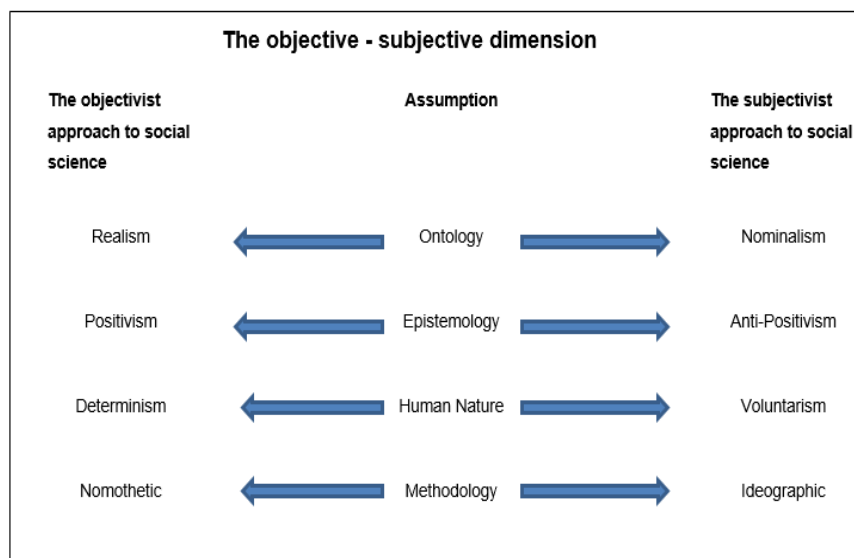
Source: Holden and Lynch (2004)

Whilst Table 22 is not a comprehensive tabulation of objectivist and subjectivist paradigms and research strategies, it serves nevertheless as a broad brush overview although it fails to encompass, *inter alia*, for example, empiricism, post-positivism, critical realism, critical theory, idealism, post-modernism, post-structuralism, pragmatism, hermeneutics, constructivism (in a variety of guises), nominalism, voluntarism, social constructionism, grounded theory, ethnography, ethnomethodology and phenomenography.

In Figure 25, Burrell and Morgan (1979), summarise the subjective-objective dimensions in terms of a continuum where infinite positionalities are possible, and appear to suggest that contextual fluidity is a pre-requisite within the four assumptive pillars of ontology, epistemology, human nature and methodology.

The first assumption, see Figure 25, that of Ontology, has been mentioned earlier and relates to the nature of reality and whether reality is an external truth or, at the opposite margin, is merely a solipsistic figment of our imagination (Burrell and Morgan 1979). The researcher's view of reality is the basis of all other assumptions and is instrumental in buttressing all other preconceptions. The second assumption is Epistemology – the nature and validity of knowledge. Indeed, Hughes and Sharrock (2014) ask how is it possible, if in truth it is possible, for us to acquire knowledge of the world and its complexities. The third assumption, that of Human Nature, involves the views of the researcher concerning his or her perceptions of humankind as being the controller of both environment and of self, or as one who is controlled and manipulated by multifarious externalities (Burrell and Morgan, 1979). The final assumption, Methodology, refers to the means at the disposal of researchers in the social sciences through which, and by which, they are able to investigate phenomena.

Figure 25: Scheme for analysing assumptions about the nature of social science



Source: Author with adaptations from Burrell and Morgan (1979)

At one of the extremities of the ontological continuum is Nominalism that denies the existence of universals and abstract objects stating that these are merely names without a corresponding reality whilst at the opposing end is Realism that contends that entities have an existence independent of the act of perception, and independent of their names. Epistemological Positivism posits that only observable phenomena can provide credible facts and proposes that, as such, generalisation is possible. However, Anti-Positivism, also known as interpretivism, positions the social realm as comprising subjective meanings and social phenomena and has, at its focus, the sub-texts of those meanings.

Human nature may be defined in terms of perceptions that vary from Voluntarism, a perspective that prioritises the will and individual agency over and above that of reason, to Determinism which is the philosophical idea that every event, state and every human decision and action is the consequence of prior occurrences. Determinism asks of us, “Are we resigned to remain prisoners of our past?” This is not to be confused with Fatalism, but is concerned with the level to which humans have influence and agency over their future when it is dependent on present and past events.

Finally, Burrell and Morgan (1979) claim that methodologies can range from the Ideographic which highlights the unique elements of a given phenomenon to the Nomothetic which seeks to provide a more general statement about social life emulating techniques employed in the natural sciences.

It appears to be incumbent upon the researcher therefore, to analyse his or her research philosophy and associated assumptions in arriving at a view concerning the nature of reality; to determine what is considered to be acceptable knowledge and finally, to appreciate the status of the researcher’s values and beliefs that influence the research. The options available are not dualistic, but can be considered more as a multi-dimensional set of continua rather than separate positions (Niglas 2010).

Research Approach: Deduction, Induction and Abduction

According to Eriksson and Kovalainen (2008), research approach, or research logic, determines whether the research moves from the general to the specific or vice-versa. It comprises three constituents, namely those of induction, deduction and abduction.

The deductive approach is closely associated with what may be thought of as scientific research and positivism that typically involves a theory based upon existing literature. This is then followed by the development of a hypothesis and subsequent rigorous testing through a number of iterations that ultimately leads to the confirmation or rejection of the hypothesis and the rejection or creation of new theory. Such hypotheses are tested using data sets and quantitative techniques to measure the concepts or variables that are designed to either prove or to disprove the original hypothesis.

Deductive research seeks to explain causal relationships and leads to a general theory capable of replication as a consequence of a structured methodology.

The inductive approach however functions in opposition to deductivism and moves from data collection via specific observations towards broader, context-based frameworks, models and substantive theories (Creswell 2007) and thus theory emerges through induction (Rose et al. 2015). In an inductive approach, theory may be said to be an output whereas in a deductive approach, theory may be considered an input.

Eriksson and Kovalainen (2008) state that the third of the research approaches, *abduction*, includes both inductive and deductive research logic and involves an interplay of observation and theory during the research process (Rose et al. 2015). The term is associated with the philosopher Charles Pierce who used it to refer to a type of reasoning related to inference to the best explanation. Abduction is required when the researcher encounters surprising, anomalous observations that do not fit existing

theories. Accordingly, there is a need to advance a new theory to accommodate these observations. Abduction is the most creative form of theorizing and for qualitative researchers, it offers methodological guidance on how to structure research and to work with such observations to generate theoretical insights.

However, as this study focuses on substantive theory building or as Jenkins (1992) describes it, a “temporary construct” (Jenkins 1992, p.67) and gaining a deep understanding of the processes and dynamics of corporate governance, risk and crisis management through four case studies of small companies, inductive logic is considered to be appropriate research approach for this study where qualitative methods such as semi-structured interviews, observation and document analysis are used extensively.

Prior to interviews taking place, participants complete an exploratory questionnaire containing 61 statements to which they had to respond on a 5 point Likert scale from Strongly Agree to Strongly Disagree. The purpose of the questionnaire is more about triangulation and verification of interview responses than seeking to create statistical generalisation. The small sample size (N=9), despite being the population of the four case studies, would not produce results of a significant nature although a case can be made that the use of a questionnaire, whatever its purpose and limitations, defines the overall research approach as being abductive, the vast bulk of the research approach is however inductive.

Research Design: Exploratory, Descriptive, Analytical and Predictive

Research design may be classified according to its purpose and can be labelled as being descriptive, analytical, exploratory or predictive. Descriptive research is conducted in order to describe phenomena and their characteristics and frequently uses the ‘what’ and ‘how’ questions. Analytical research, however, goes beyond mere description to analyse how and why phenomena are happening, whereas the aim of exploratory research is to

seek patterns and ideas with the objective being to develop a hypothesis, substantive theory or construct. Hence, the purpose of exploratory research is that of discovering patterns, ideas, theories or hypotheses, rather than the testing or confirming of hypotheses.

Predictive research advances in complexity beyond explanatory research and involves predicting the likelihood of something happening elsewhere, whilst exploratory research is conducted when there is little or no information about the issue or problem. Predictive research often uses the ‘what if’ question.

This study is concerned with corporate governance and how it contributes to risk and crisis management in small companies, an area in which relatively few studies have been conducted, and consequently the researcher seeks to inquire into, and then understand the phenomena. Hence this work falls within the ambit of exploratory research.

Author’s Assumptions

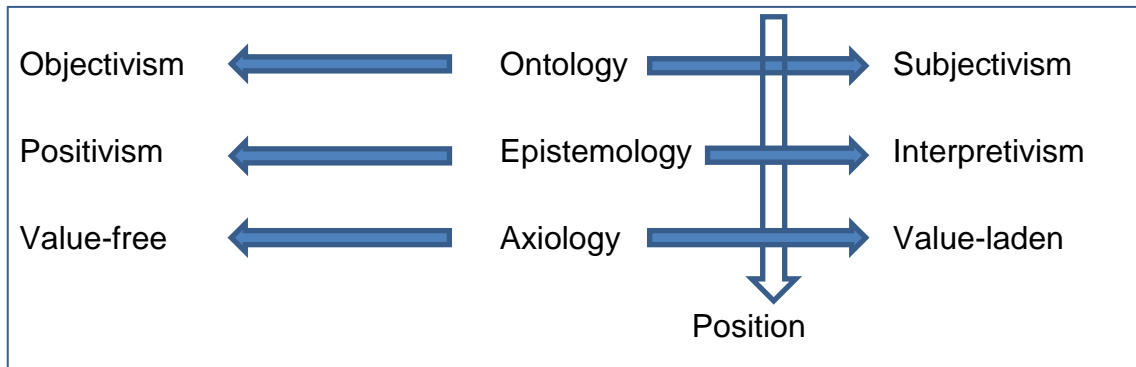
The ontological perspective of the author concurs with the view that the nature of reality is subjective; the epistemological stance of the author is consistent with an interpretivist philosophy and the axiological stance of the author is such that research, *ipso facto*, involves varying degrees of interaction with the phenomena being examined.

Furthermore, the author has undertaken the HARP (Heightening Awareness of your Research Philosophy) diagnostic (Bristow and Saunders 2015) which confirms his strong leaning towards interpretivism with regard to ontology, epistemology, axiology, purpose of research, meaningfulness of data and structure/agency. (See Appendix 6 for details of the HARP diagnostic and the outcomes for the author.)

Building upon the previous paragraphs, a diagrammatic representation of the positioning of this study within the philosophical continuum, see Figure 26.

Based on the work of Creswell (2007) it articulates the philosophical positioning of the author as being that of the subjective/interpretivist, using a logic that is inductive and adopting an exploratory process along with a qualitative methodological choice for this research.

Figure 26: Philosophical positions and paradigms



Source: Author

Subjectivism asserts that social phenomena are created as a consequence of perceptions relating to the behaviours of the social actors engaged in a particular setting that is in a state of constant flux (Denzin and Lincoln 1998). Hence, in order to understand the reality and dynamics of phenomena within a specific context, it is necessary to study the details of the situation that gives rise to events and incidents.

This view is closely associated with constructionism or its sub-set, social constructionism, which views reality as being socially constructed, a concept eloquently encapsulated by physician Alcmaeon of Croton (born c510BC), and a pupil of Pythagoras, who, cited by Snell (1982), whilst writing on the issue of conjecture, stated that, "The gods have certainty, whereas to us as men conjecture [only is possible]", (Snell 1982, p.146). (From the author's atheistic perspective, the notion of polytheistic *episteme* is risible, yet notwithstanding this aberration, the broad interpretivist argument appears to have been postulated some 2,500 years ago.)

From its early origins in Greece, notions of conjecture and constructivist thinking became a feature of post-enlightenment thought in realms of both scholasticism and creativity. During the 19th century and beyond, a burgeoning tide of intellectuals across a wide spectrum of thought, artists, writers, musicians and poets were prepared more than ever to challenge the hitherto received wisdoms of powerful elites whose world view dominated and prescribed the intellectual and cultural zeitgeist together with its creative parameters. Lucie-Smith (1992) refers to this period as “one of dizzyingly rapid physical and intellectual change” (Lucie-Smith 1992, p.395). In the world of art, for example, this is clearly visible within the rise of the various “isms”, not least of which is Impressionism, which challenged and shocked the conservative thinking of the Salon – the French artistic establishment. Movements such as Symbolism, Post-Impressionism, Fauvism, Expressionism, Cubism, Futurism, Suprematism, Constructivism and Surrealism were influential in furthering thinking founded upon subjectivist, interpretivist ontologies. Aurier (1891) writing in an Arts and Culture digest “*Mercure de France*”, promulgates the ideas of subjectivism stating that since the object will never be considered as an object, but rather an indication of the idea perceived by the subject and exemplified by the subject of his piece Paul Gauguin, for example, was described as a “Fauve” – a wild beast - due to his outlandish depictions of the human form (Aurier 1891, p.157).

Almost half a century after Aurier’s writing, the infamous exhibition “*Entartete Kunst*” held in Munich in 1937 became a failed attempt to ridicule so-called “degenerate art” deemed contrary to the ruling National Socialists prescriptive formula as to what art and creativity should be and where any attempt to interpret the world through a different lens was discouraged or proscribed.

Around the same time the totalitarian left in Russia prescribed Soviet Socialist Realism as the only acceptable means through which the socio-political and

cultural world could be interpreted in art with a spell in the Gulag beckoning for those who desisted.

In contrast to prescription, Ruskin (1858) promoted subjectivism and refers to the disposition of impermanence and states that nature with all its imprecisions held empirical truths that could offer insight through artistic rigour and meaningful interpretation stating that an original perception was valid,

“the innocence of the eye.....that is to say, a sort of childish perception of these flat stains of colour without consciousness of what they say” (Ruskin 1858, p.22).

Ehrensweig (1967) summarises the idea of interpretation referring to the “uncompromising democracy of vision” that promotes an alternative to over-zealous scholastic rigour through encouraging a syncretistic approach to the means through which knowledge may be acquired.

What is widely referred to as “modern art” is in large measure the creative world's response to the positivist practices and perspectives of the new lives and ideas provided by the technological advances of the industrial age that caused contemporary society to manifest itself in unconventional ways compared to the strict diktats of the past. Writers and artists worked to represent and interpret their experience of the world as they saw it in appropriately innovative ways. An example of such innovation is Picasso’s opus magna, the representation of the bombing of Guernica (Picasso 1937).

The art commentator Wolf (2017) offers a succinct summary of this tectonic shift in thinking about perceptions and interpretations in the online *Story of Art* web pages, stating that,

“modern art is characterised by the artist's intent to portray a subject as it exists in the world, according to his or her unique perspective.” (Wolf 2017).

Figure 27: Guernica



Source: Museo Reina Sofia, Madrid

As if extrapolating from Ruskin and developing the notion of the innocence of the eye as outlined by Wolf (2017), Easterby-Smith et al. (2008) state that social constructionist research has a base assumption “that there is no absolute truth” (Easterby-Smith et al. 2008, p.93) and that the researcher’s task is to establish how reality has been constructed in daily lives within a real world setting. Creswell (2007) however, uses the term “social constructivism” in a way that is often synonymous with social constructionism (Young and Collin 2004), although Howell (2013) points out that the two terms incorporate different perspectives as to the way in which reality is understood, writing that social constructivism,

“considers that individuals develop and give meaning to the world while [social constructionism] argue[s] that meaning is developed through social amelioration and agreement” (Howell 2013, p.89).

Continuing the nuances, Reigler (2012) asserts that there is a variety of paradigms within paradigms that use the term constructivist and accordingly, nuanced meanings are associated with respective versions. Reigler (2012) writes that,

“Constructivism is not a homogenous paradigm. Various strands of empirical insights and philosophical reflections have led (and are still leading) to the formulations of a number of constructivisms.”(Reigler 2012, p.237).

Included within these “strands” are, for example, phenomenological constructivism (Mach 1959); biological constructivism (Maturana and Varela 1980); cognitive constructivism dualistic approaches (Piaget 1954); radical constructivism non-dualistic approaches (von Glasersfeld 1995); social constructivism (Berger and Luckmann 1991); postmodernist constructivism (Lyotard 1984) and social constructionism (Vico 1858).

Reigler (2012) who, given the miasma that envelops the paradigmatic soup, appears to be resigned to an etymological concrescence and chooses to use the catch-all term “constructivist approaches” that refers to the idea that the world and the associated experience of reality is actively constructed and that the observer is an instrumental element within the interpretation of phenomena.

Young and Collin (2004) concur with Howell (2013) and state that,

“Constructivism proposes that each individual mentally constructs the world of experience through cognitive processes” (Young and Collin 2004, p.375).

However, both Howell (2013) and Young and Collin (2004) go on to acknowledge that whilst each perspective has a unique starting point, there is congruency in the belief that reality is not external to human existence but rather is defined through social exchange. Creswell (2007), a social

constructivist, supports the idea of meaning being negotiated through interaction and to that adds the twin influences of historical and cultural norms. These influences are far from peripheral and feature as a significant factor in the governance of small companies (Evans 2012; ACCA 2017). Lincoln and Guba (2014) express the constructivist view in succinct and insightful language when they write that,

“In the human sciences, entities are matters of definition and convention; they exist only in the minds of the persons contemplating them. They do not “really” exist. That is, they have ontological status only insofar as some group of persons (frequently, social scientists, but often the rest of us, also) grants them that status.”(Lincoln and Guba 2013, p.39).

Earlier, Guba and Lincoln (1994) refer to constructivism and epistemology and state that knowledge accumulates through the formation of increasingly informed and sophisticated constructions. They assert that an important mechanism for the transfer of knowledge across contexts is the idea of vicarious experiences that are contained within the case study method.

For the purposes of this study, the author prefers to use the term “constructivism” as in the case of small companies it is frequently the primacy of perception of the individual owner-manager or “the tone at the top” (ACCA 2017, p.2) that determines the nature of reality that pertains within the culture, management and governance of the company (Spiers 2017) and to which others tend to subscribe albeit with varying levels of enthusiasm and commitment.

Pertaining to the nature of reality, this study incorporates a deeper fundamental philosophical position adopted by the author that reflects the thinking of the Process Philosophy School the foundations of which were established by the Pre-Socratic scholar Heraclitus (535bc-475bc), with his concept of the omnipresence of shifting sands, or *panta rhei* (“everything

flows”) as he compared the nature of reality with the element of fire, asserting that change is reality and stability is illusion. Although western-based thinking dominates the antecedents of process philosophy, ancient Japanese aesthetics relate to the traditions of “Wabi Sabi”, a practice that continues to modern times, which celebrates impermanence, transience and imperfection. It prefers the twisted driftwood to the precision and angularity of Piet Mondrian and the Bauhaus, the “rough ground” of Wittgenstein (Wittgenstein 2009, p.107) to the engineered paviour and applauds the imprecision of the discovery as expressed by TS Eliot in his poem “Little Gidding” part of which reads,

“We shall not cease from exploration
And the end of all our exploring
Will be to arrive where we started
And know the place for the first time.
Through the unknown, remembered gate
When the last of earth left to discover
Is that which was the beginning.”
From Four Quartets, (Eliot 1942).

Process philosophy emphasises the notions of “becoming” and the omnipresence of change surpassing and superseding stasis. Though present across a wide range of historical and cultural epochs, “process philosophy” within a modern context is largely associated with the work of the philosopher Alfred North Whitehead who wrote,

“That ‘all things flow’ is the first vague generalization which the unsystematized, barely analysed, intuition of men has produced. ... Without doubt, if we are to go back to that ultimate, integral experience, unwarped by the sophistications of theory, that experience whose elucidation is the final aim of philosophy, the flux of things is one ultimate generalization around which we must weave our philosophical system”. (Whitehead 1929, p.317).

Process Philosophy was particularly vibrant in 19th and 20th century North America and according to Hustwit (2017),

“Process philosophy argues that the language of development and change are more appropriate descriptors of reality than the language of static being”(Hustwit 2017, p.3).

Other significant contributors to the debate surrounding Process Philosophy in the twentieth century include Charles Hartshorne, William James, Samuel Alexander, George Herbert Mead, John Dewey, who argued that no belief should be considered final, as human knowledge is in a constant state of revision and development and C.S. Peirce who defined truth as an eternal, unattainable quest involving an abductive process of inquiry that engaged with the meaning of signs, all of whom contributed to the subjective impressions made by the sign upon mankind.

Peirce and Dewey along with others such as Mead and James were also closely associated with Pragmatism that took the view that philosophy had to be less concerned with ethereal ideas and to appreciate that culture is not a fixed point but is an on-going series of interactions and debates – a view shared with process philosophers. Howell (2013) defines Pragmatism in the following terms,

“Pragmatism defines truth as those tenets that prove to be useful to the believer or the user. Pragmatists assert that objective truth cannot exist because it needs to relate to practice”(Howell 2013, p.132).

This relationship with practice acknowledges the Socratic notion of wisdom in the form of phronesis. Rorty, a neo-pragmatist, expresses this idea in constructivist terms and advocates that the role of philosophers should change from foundation-layers to interpreters.

Process philosophy is not concerned with the process of reality but process as reality and assumes a world view that reality is in flux albeit that the pace of such flux may, at times, be imperceptible within the temporal parameters in which most human beings function. Such process thinking gives priority to becoming over being, change over permanence, novelty over continuity and activity over substance.

The debate as to the nature of reality and its fluidity in construction continues into modern times as can be witnessed as Seibt (2016) citing Hegel (b.1770), expressed a dialectical view consistent with that of Heraclitus describing reality as “a self-unfolding of dynamic structures or templates” (Seibt 2016). That is in marked difference to the Parmenidean view of stability and recurrence “where there can be no cosmogony because plurality and change are inadmissible conceptions” (Guthrie 1996, p.5) citing Parmenides (c.540bc-475bc). Heraclitus believed that reality was a concrescence of transfers and that it was not to be identified with any particular substance,

“but rather consists of a law-like interchange of elements, an ongoing process governed by a law of perpetual change, or Logos” (Mastin 2017).

In this respect, the aphorism often attributed to Heraclitus, namely, that everything is in a state of flux, remains a powerful summary of his views on the problem of change and the temporal nature of being. Heraclitus is often quoted as saying that a person cannot step twice into the same river, thereby suggesting that, whilst rivers can create an illusion of stasis over time, and like “*Old Man River - he just keeps rollin’ along*” (Sidney 1951 performed by Paul Robeson), yet the waters that are contained within their parameters and the wider environment are nevertheless in a constant state of change.

Despite his convoluted monologues, oracular language and denigration of those with whom he disagreed, Heraclitus “saw the unity of the world in its structure and behaviour rather than in its material”(Urmson and Ree 1992,

p.131). Those structures and behaviours comprised a state of “becoming”, a term attributed to Heraclitus yet not contained within his writings according to some (Przybylski 2002), rather than in a state of permanence that Cox (1999) claims has contemporary relevance. This notion transcends millennia and accords with Nietzschean interpretations of becoming and with Heidegger’s hermeneutical phenomenology and concepts of *dasein* (Howell 2013; Olafson 2017).

The ontological view of the author corresponds with the ideas of “becoming” and *panta rhei* and hence the notion of immutability is rejected in favour of temporality and contingency and accordingly the author does not concur with the monism of Parmenides who viewed the senses as being illusive, mendacious, and deceitful, accepting only the validity of logic and rationality. Palmer (2013) citing Guthrie (1965), states that,

“Parmenides presumed reason must be preferred and sensory evidence thereby rejected as altogether deceptive” (Palmer 2013).

This ontological position is in direct juxtaposition to the “*weltanschauung*” - the world view, of the interpretivist researcher.

A second train of philosophical thought lays claim on this study, and is reflected in the Aristotelean concepts of *sophia* and *phronesis*. Contained in Aristotle’s “Nicomachean Ethics Book 6”, *sophia* is usually thought of as theoretical wisdom that combines discernment and knowledge, whereas *phronesis* is the notion of practical wisdom and judgement (Fitzpatrick 2011) that enables humankind to reach the mean of moral virtue (Greeff and Rennie 2016) albeit, according to Aristotle, *phronesis* is lower in status than *sophia* (Urmson and Ree 1992).

Phronesis is, however, concerned with instances because it is related to responses and behaviours in particular situations and, as such, Aristotle argues that a person can learn the principles of action, but application in the real world, where situations that could not have been envisaged requires

experience of the world and in the world. Shotter and Tsoukas (2014) in their view of *phronesis* reflect the Heraclitean notion of becoming and state that,

Phronesis inheres in the ability to allow for the fluid, indeterminate nature of the circumstances in which we must act, and to accept that, each time we act, we must, in a sense, start afresh.” (Shotter and Tsoukas 2014, p.240).

Greef and Rennie’s (2016) study into *phronesis* in health research concurs with this view and concludes that accepting and managing surprise, ambiguity and dissonance is an integral element of research, stating that,

“The capacity of practical wisdom as a crucial decision-making skill should be assimilated into a researcher’s everyday reality” (Greeff and Rennie 2016, p.170).

In the context of this study that has small companies as its focus, it is *phronetic* wisdom, “tacit knowledge” (Maykut and Morehouse 1994) and practical judgement that inhabits the company’s leadership mind set (Gibson 2008) and addresses the questions “what” and “how”, rather than an orientation that relates to the more ethereal wisdom of *sophia*. Thomas (2016) supports this view stating that,

“[Phronesis] is judgement made on the basis of experience and has no pretensions to lead us to the kind of external guide that theory is supposed to provide....phronesis is about understanding and behaviour in particular situations” (Thomas 2016, p.72).

Thus, this study examines the notion of corporate governance, risk and crisis management via the lens of *phronesis* in a “*Lebenswelt*” – real-world setting, with all its inherent uncertainties and rough ground, through an interpretive and subjective philosophy.

In summary, subjectivist philosophy is grounded in the thinking of Protagoras of Abdera (c.485-415 BC) who is considered to be the first to promote the philosophy of subjectivism (Mark 2009), which argues, in contradiction to both Plato and Socrates, that all interpretation of reality is relative to the individual (Cavalier 1990). It is upon such a philosophy that subjectivism and interpretivism are considered to be best suited to the nature and context of this research.

Methodological Choice

The features of an interpretivist paradigm are the use of small samples; the research is situated in a natural location; the objective is that of theory generation; the process involves the production of rich subjective data; the production of findings with low reliability but high validity and finally the research is concerned with enabling findings to be generalised from one setting to another similar setting (Collis and Hussey 2009).

Thomas (2016) however profoundly disagrees with both the third and final points concerning generalisation in respect of case study research and believes that whilst the researcher “cannot generalise” within its usual meaning it is possible to elicit insights, patterns and “bridges between ideas”(Thomas 2016, p.221).

Jenkins (1992) is also critical of this approach with regard to the traits of the interpretivist paradigm and questions the importance of theory generation as an end product, preferring to view it as disposable and as a “temporary construct” (Jenkins 1992, p.40).

Characteristics and Defining Features of Qualitative Research

Qualitative research is based on the adoption of a phenomenological stance and is holistic in that it takes account of the unique contexts within which human experiences occur and is accordingly associated with distinct instances, situations or cases. Qualitative research seeks to reveal hidden perceptions and their meaning in order to understand, describe, and explain phenomena from the perspective of the actors involved. Such an approach does not assume a hypothesis that is to be tested and proved, but has at its heart a focus of inquiry that seeks to understand and explore using an inductive approach to data analysis. The research outcomes are not the broad generalisations that may emerge from positivist research but rather are contextual findings; capable of transferability [also known as external validity in positivist research according to Lincoln and Guba (2013)] from one context to another rather than seeking to postulate a generalisable theory. Lincoln and Guba (2013) also state that,

“In interpretivism, generalizability is not the aim; instead, the applicability of the findings and interpretations is to be determined by those who want to apply the findings and interpretations. In interpretivism, this transferability is possible through thick descriptions....so that the researcher can determine whether the findings apply to his or her context”(Lincoln and Guba 2013, p.104).

It may be that triangulation may be sought to determine transferability but without using the strict techniques of the positivist and rather relying upon the triangulation of methods used and the nature of observations made.

Maykut and Morehouse (1994) point out that,

"words are the way that most people come to understand their situations; we create our world with words; we explain ourselves with words; we defend and hide ourselves with words"(Maykut and Morehouse 1994, p.17).

Hence, in qualitative data analysis and presentation: the researcher is seeking, patterns within those words and to present those patterns for others to interpret whilst “staying as close to the construction of the world as the participants originally experienced it” (Maykut and Morehouse 1994, p.18).

The work of maykut and Morehouse (1994) with caveats, substantiates this research taking the form of an interpretivist study that uses a qualitative methodology in which the researcher interacts with the phenomenon which is being researched and hence the reality is subjective. According to Creswell (2007), qualitative research takes an inductive approach and builds general themes from the particular with the researcher subsequently interpreting the meaning of the data collected.

This study corresponds with these stipulations and accordingly the work of Creswell (2007) offers further legitimacy for this research to use a qualitative methodology. The research takes place within the specific context of corporate governance in small companies based in the UK. Remenyi et al. (2009) refer to the “primacy of context” when using a qualitative methodology and add that,

“the context within which social action or behaviours occurs is of the utmost importance in understanding actions or behaviours” (Remenyi et al. 2009, p.97).

Thus a third affirmation supports the assertion that the appropriate methodological choice for this research is qualitative.

According to Silverman (2015), methodology refers to the overall approach to the research process and he points out that, “Like theories, methodologies cannot be true or false, only more or less useful” (Silverman 2015, p.2).

Within the context of Silverman’s relativist argument, Rose et al. (2015) identify and summarise the distinctive nature of qualitative research methodology and assert that such research comprises the particular features,

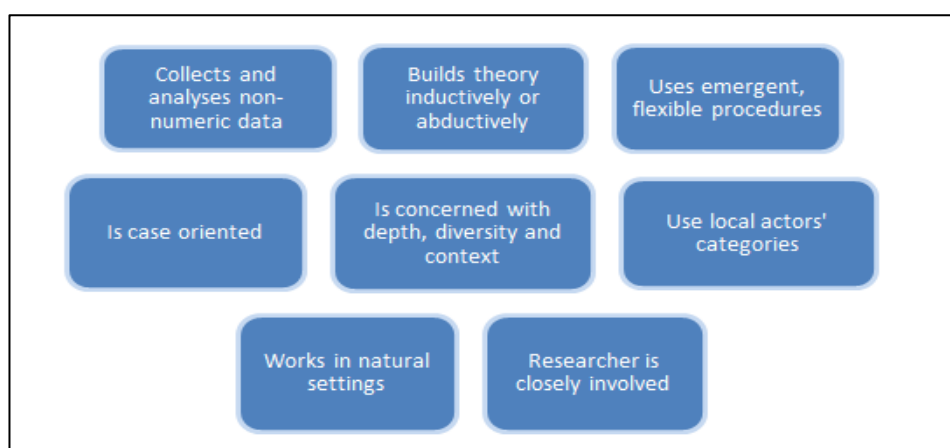
see Figure 28. Qualitative research therefore involves the collection of non-numeric data, it seeks to build theory, albeit that this may be temporary, through inductive research and is conducted in the context of a case or cases.

In this particular study, the researcher engages in direct and deep conversations with the directors of small companies at their places of work, and in one instance at home, and accordingly, it possesses each of the characteristics identified by Rose et al. (2015) and by Creswell (2007). Hence, it is possible to conclude that the research methodology can further be clearly identified as qualitative.

The methodological choices open to the researcher include both mono and multiple methods of data collection that are applicable to both qualitative and quantitative methodologies. The mono method uses a single means by which data are collected and analysed whereas, in contrast, a multiple methods strategy will involve more than one data collection technique such as, for example, interviews and observation.

The methodological choice considered to be appropriate for this study is that of a multi-method qualitative research project involving more than one form of data gathering techniques.

Figure 28: Distinctive features of qualitative research



Source: Rose et al. (2015 p.85)

Concerning data gathering this study follows Wacquant (2008) who advises that scholars should adopt a contingent view and take account of Bourdieu's methodological polytheism, a term used to promote the notion that the researcher should "deploy whatever procedure of observation and verification [that is] best suited to the question at hand" (Wacquant 2008, p.266).

Research Strategy

Strategy, in a business context, is the term widely used to refer to the means by which a goal is to be achieved, although according to Whittington (2001), it can be defined as a structured plan, an evolutionary and unstructured meander, a process and a system. In the context of research however, strategy has been defined as the "overall direction of research, including the process by which the research is conducted" (Remenyi et al. 2009, p.44) thereby embedding the twin attributes of direction and process. Saunders et al. (2012) take a wider view and state that research strategy is the methodological link between philosophy and the subsequent choice of methods for data collection. The research strategy also depends on practical considerations such as the extent of contemporary knowledge and the time and resources available to the researcher.

A research strategy, it could be claimed, is therefore an element within an integrated system and is developed and contained within the researcher's ontological and epistemological paradigms (Creswell 2007) and the chosen methodology. Creswell (2007) in support of this view writes that a close link exists between the philosophy that one brings to the research act and adds that it also impacts upon "how one proceeds to use a framework to shroud his or her enquiry." (Creswell 2007, p.15).

Howell (2013) gives added support to this link and summarises the need for the researcher to understand the relationship between philosophical positions and paradigms stating,

“Building an understanding between the philosophical positions and paradigms is an essential part of the research process and integral in deploying methodology and methods best suited for a research project”(Howell 2013, p.Back cover).

Taking Howell’s (2013) view on the integration of philosophical positions with the most appropriate methodologies and methods, Table 23 indicates a range of research strategies and their links to the philosophical bases of Objectivism and Subjectivism.

As has been stated earlier, this study is conducted within the subjectivist paradigm and accordingly, the strategies that are most appropriate to the research are shown in a bold typeface.

There are a number of commonly used research strategies which can be exercised as either a singular or multiple strategy residing within the subjectivist paradigm.

Table 23: Research Strategies and their Philosophical Bases

Research Strategies	Objectivism	Subjectivism
Action Research		Strictly Interpretivist
Case Studies	Have scope to be either	Have scope to be either
Ethnographic		Strictly Interpretivist
Field Experiments	Have scope to be either	Have scope to be either
Focus Groups		Mostly Interpretivist
Forecasting Research	Strictly positivistic with room for interpretation	
Futures Research	Have scope to be either	Have scope to be either
Game or Role Playing		Strictly Interpretivist
In-depth Surveys		Mostly Interpretivist

Laboratory Experiments	Strictly positivistic with room for interpretation	
Large-scale Surveys	Strictly positivistic with room for interpretation	
Participant-Observer		Strictly Interpretivist
Scenario Research		Mostly Interpretivist
Simulation Modelling	Strictly positivistic with room for interpretation	
Narrative Research		Strictly Interpretivist
Grounded Theory	Have scope to be either	Have scope to be either

Source: Author, as adapted from Remenyi et al. (1989)

According to Yin (2014), the choice of research strategy is influenced by three conditions. These are,

- “(a) the type of research questions posed,
- (b) the extent of control an investigator has over actual behaviour events, and
- (c) the degree of focus on contemporary as opposed to historical events”. (Yin 2014, p.9)

These conditions are portrayed, see Table 24, and relate to the research question, the control of behavioural events and the focus on contemporary events within a limited number of research “strategies”, but referred to as “methodologies” by Collis and Hussey (2003, p.60) and as “methods” by Yin (2014 p.9). Strategies related to Interpretivist research are shown in bold text.

Table 24: Relevant Situations for Different Research Methods

Method	Form of research question	Requires control of behavioural events	Focus on contemporary events
Experiment	How? Why?	Yes	Yes
Survey	Who, what, where, how many, how much?	No	Yes
Archival Analysis	Who, what, where, how many, how much?	No	Yes/No
History	How? Why?	No	No
Case Study	How? Why?	No	Yes

Source Yin (2014 p9)

Mills et al. (2010), editors of the “Encyclopaedia of Case Study Research” refer to case study as a research *strategy* rather than a method or methodology. They conclude that method implies a research tool, e.g. surveys, interviews, or observations, and as such, a case study cannot be reduced to a single method. Methodology, they believe, can refer to the use of a particular method or methods together with the theoretical framework in which it resides.

This confusion would appear to be overwhelming for Burns (2010) who writes that, “Multivocality is at times too raucous for the listening ear”(Burns 2010, p.36)! As Burns (2010) infers, within the corpus of literature relating to research, there is considerable interchangeability between the terms used and hence, for the purposes of this study the author refers to the case study as a *research strategy* with *methods* referring to data gathering techniques such as interviews and document research.

This study is based upon clear ontological, epistemological and axiological perspectives that align with an interpretivist position, an inductive, ideographic approach and a qualitative methodology. Accordingly, the subjectivist nature of the research will tend towards strategies, (Yin's so-called methods), that relate to that particular paradigm and hence for the purposes of this section of the thesis, strictly positivistic methods have been discounted and are deemed to be inappropriate.

The qualitative methodology that is acceptable accords with Creswell (2007) who believes that such research is concerned with an approach that begins with a set of assumptions and is conducted through what he describes as,

“an interpretive/theoretical lens, and the study of research problems exploring the experiences of a single individual ...or the lives of a small number of individuals” (Creswell 2007, p.73).

Kincheloe and Berry (2004) argue however, that, just as defining the rationale for a methodology is an integral part of research rigour, so too is the choice of method and the determinant that they propose is that of the best fit with the research question (Kincheloe and Berry 2004).

In justifying the most appropriate research method, “the means by which data are collected and/or analysed” , for use within this study, the methods, see Table 25, are considered across a range of appropriateness criteria.

Table 25: Characteristics and Appropriateness of Strategies in Qualitative Research

Primary Research Method	Characteristics	Appropriateness
Action research	Applied research, collaborative interventionist, based in single case study respondent time and input is considerable	Not relevant - linked with consultancy and access can be problematic. Can involve a long period of time. May be lacking in rigour

Ethnographic	Field observations to study a culture in a particular society, longitudinal, multiple data sources	Not relevant – requires long term research programme. Access would be problematic
Focus groups	Not used as a single source of data but as validation. No consensus required. Require facilitation and moderator.	Partly relevant – but issues of confidentiality and data sharing could limit openness
Game or role-playing	Participants play a role in a high-level simulated scenario and actions and reactions are observed	Not relevant – this research is based on actual events that have taken place in recent times
In-depth surveys	Small number of participants in series of structured interviews. Rich deep data with emergent stories	Partly relevant – as a tool for collecting basic functional and attitudinal information prior to more detailed interviews
Participant-observer	Researchers are members of the observed organisation and part of the phenomenon being studied	Not relevant – but as a non-participant, observation of the board at work gives an insight into the power dynamics prevailing amongst directors
Scenario research	Researcher elicits views of experts relating to a theoretical scenario within a focus group setting	Not relevant as this research seeks to elicit the views of internal participants on actual events
Narrative Enquiry	Deals with a personal account which interprets an event or sequence of events in the form of a story that gives meaning	Relevant - as small businesses have a strong personal element that informs the way in which crises are handled
Grounded Theory	Refers to a theory that is grounded in or developed inductively from data sets to develop theoretical explanations of social interactions	Partly relevant – only in terms of Charmaz who recognises that the researcher may have a past history that renders pure grounded theory difficult
Archival research	Utilises contemporary and historical administrative records and documents	Relevant - as board minutes, policies, procedures are part of the

	with research questions that focus on the past	picture painted with regard to corporate governance
Case study/studies	Explores a phenomenon within its context and a specific boundary. Generates answers to the why, how and what questions	Relevant – as the research is concerned with a number of dynamic elements and takes place in a natural setting of the boards of four companies as the units of analysis
Hermeneutics	Concerned with the interpretation of texts and documents normally in a historical or scriptural setting	Partly relevant - in understanding the meaning of the text in its context

Source: Remenyi et al. (2009) and Creswell (2007)

As explained earlier in this chapter of the study, the philosophical stance of the author is that of the subjectivist viewing reality as being socially constructed and as such, using constructivism to interpret and understand the world in which the individual research participants work. Therefore, in determining the most suitable data collection methods within the subjectivist/interpretivist paradigm, action research in which the researcher acts as an agent of change within the research environment and seeks to influence and adapt current behaviours and practices has been eliminated. As this study is reflexive and requires participants to consider the recent past with regard to governance, risk and crisis management an interventionist approach is therefore of little relevance. Furthermore, action research is conducted in an environment where researcher control is required and hence, this form of dynamic engagement renders it unsuitable for this study.

Ethnography is holistic research in which the researcher is a participant observer of the research environment. Ethnographic studies are often conducted for a prolonged period that involves intimate interaction with social groups in order to understand the phenomenon in considerable depth. An example of such is the iconic longitudinal study *Argonauts of the Western*

Pacific, published in 1922, which is an account of indigenous creativity and adventure in the archipelagos of Melanesian New Guinea (Malinowski 2014). The study was conducted over a period of two years by Bronisław Malinowski, considered by many as the founding father of this form of research. Since the time and resources available for this study are limited, ethnography is not considered to be a suitable method.

Game or role-playing and scenarios are not relevant to this research although at some future time the respondents may choose to engage in such activities to test their crisis preparedness and business continuity plans.

Constructivists Lincoln and Guba (2013) state that the researcher, once having accepted a subjectivist ontology and epistemology, must adopt appropriate methodology and methods consistent with that philosophical position. They propose therefore, that the researcher seeks deep meaning in a partnership of equals and uses both interpretive hermeneutics and dialectic argumentation as the means of uncovering individual constructions and then comparing, contrasting and confronting. These twin methods have merit with regards to this particular study and can add to its authenticity.

In assimilating the views of Lincoln and Guba (2013) and the range of methods consistent with the philosophical underpinning, the author concludes that case study as a research strategy would appear to be best suited to answering the research question in which “complex phenomena” (Baxter and Jack 2008, p.544) are studied within their contexts.

According to Perren and Ram (2004) the use of case study in research has a long and respected history with, for example, classic works such as the Allison and Zeliko’s (1999) study on the Cuban missile crisis engendering great interest. The rationale is constructed around a number of salient points, namely that this research takes place within a real life and contemporary situation (Pettigrew 1973; Stake 1995; Bakker 2010; Farquhar 2012; Yin 2014); it is time-bounded and involves multiple sources of information that

may, at a primary level, include observations, interviews, archival research, documents, minutes, agendas, reports and other collateral in addition to a range of secondary sources (Kulatunga et al. 2007). The case study research strategy can involve a single case or multiple cases and can utilise hermeneutics, narrative enquiry and focus group methods in order to achieve triangulation (Eisenhardt 1989b; Guba and Lincoln 1994; Farquhar 2012; Miles et al. 2014; Yin 2014) and thereby ensure effective corroboration of the evidence. Triangulation in the context of research is a metaphor based upon surveying and geometry and is used to indicate a requirement of rigour to provide evidence of a phenomenon from several differing perspectives or what Foucault (1986) calls a “polyhedron of intelligibility” (Foucault 1986, p.104) an advance from a three-dimensional view to a multi-dimensional construct of validation. Mason (2002), in contrast, criticises the logic of triangulation as a means of research validation, in part because “it implies the existence of an objective and knowable reality that can be grasped through the use of multiple methods” (Mason 2002, p.190).

De Massis and Kotlar (2014) conducted research into small family businesses using a case study strategy and stress that the use of case studies in research differs greatly from those used in a pedagogic context. However, the setting for their research is such that they describe it as heterogeneous and add that it encompasses several theoretical approaches which, they claim, makes a case study strategy well suited to deal effectively with diversity of their subject matter.

They add, “we view case studies as a powerful methodology that can be used in a rigorous, creative and a wide-ranging variety of ways”(De Massis and Kotlar 2014, p.16). Gibbert et al. (2008) add legitimacy to the case study strategy when they conclude that case studies represent a “methodology” [strategy in this study] “that is ideally-suited to creating managerially-relevant knowledge” (Gibbert et al. 2008, p.1461) which in the instance of this study is germane.

The case study, as defined by Yin (2014) is,

“an empirical enquiry that investigates a contemporary phenomenon (the case) in depth and within a real-world context, especially when the boundaries between phenomenon and context may be clearly evident” (Yin 2014, p.16).

whilst Plakoyiannaki describes the case study approach as “a road less travelled” (Plakoyiannaki 2017, p.5) and chooses to define a case study as,

“a research strategy that investigates a phenomenon in its real-life context, relating it to theory and seeking to understand what the empirical phenomenon is a case of in theoretical terms” (Plakoyiannaki 2017, p.9).

As such, the case study as defined by both Yin (2014) and Plakoyiannaki (2017), can be considered as an appropriate method for the elicitation of answers to the “what” and “how” form of research question (e.g. *What are the ways in which the values and beliefs of the owner-manager influence corporate governance?* and *How do you determine risk in terms of transfer, acceptance or mitigation?*) and it is acknowledged by Yin (2014) that the method does not require the researcher to control the behavioural events.

In this study the researcher does not control the behaviour of directors (both de-jure and de-facto), owner-managers and other stakeholders in terms of activity or beliefs. Rather, the study focuses on both contemporary events and events that have occurred within the recent past and seeks, as Stake (1995) states, “to understand the human experience”(Stake 1995, p.38). Hence, according to the views of Yin (2014), Pettigrew (1973); Stake (1995); Bakker (2010) and Farquhar (2012) the author concludes that case study is the most appropriate research strategy through which data collection can take place and the following section explains, in further detail, the case study design.

Case Study Design

As alluded to in a previous paragraph, some scholars view case study as a strategy or as a methodology whilst others regard a case study as a method (Yin, 2014). For the purposes of clarity and the avoidance of doubt, in this research, the case study is considered to be a *research strategy* within the context of a *qualitative methodology* using a number of *research methods* which include semi-structured interviews, observation and document analysis, all of which may be considered to be multiple sources of evidence through which the case study is “strengthened” (McDonald 2010, p.51).

Case study research design is, according to Farquhar (2012) founded upon the research tripod, see Figure 29, that links the conceptual framework with the remaining “legs” and establishes a rationale for the research strategy which, in this instance, is that of the case study.

The research design may be thought of as a plan or blueprint that deals with issues of what to study, what are considered to be relevant data; how can the data be collected and finally, how can the data be analysed. In the application of the plan, case study design comprises five components (Yin 2014) relating to firstly, the case study questions, secondly, any propositions/objectives, thirdly, the unit or units of analysis, fourthly, the linking of data to propositions/objectives and finally, the interpretation of findings.

Although Yin (2008), an enthusiast of multiple case studies, structures his model in a linear and logical manner, Plakoyiannaki (2017) states that case study research can be dynamic and unpredictable, the corollary of which is that the researcher should be aware of, and respond to, the opportunities that may not have been foreseen within the original design parameters.

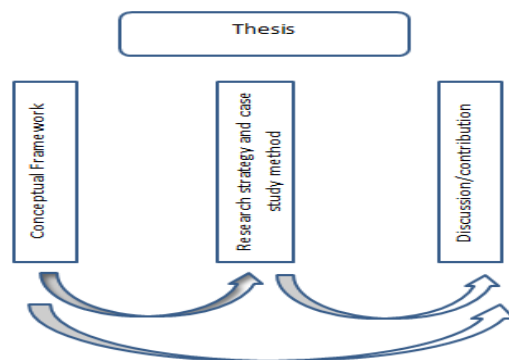
The research questions and the provisional conceptual model emerge from the literature review (Farquhar 2012) and, as this study takes a qualitative approach, there are, consequently, neither hypotheses nor forming propositions that will be tested through experiment or survey. Instead of

propositions, this study contains objectives against which its efficacy will be measured.

The unit of analysis addresses the fundamental problem as to how the case is to be defined which Creswell (2007) describes as, “Studying an event, a program, an activity, or more than one individual” (Creswell 2007, p.104) and what Easterby-Smith et al. (2008) refer to as that which “forms the basis of any sample” (Easterby-Smith et al. 2008, p.102).

The unit(s) of analysis can be an organisation, a group of workers, a management team, an event or a process and can involve one or more organisations in either a single case study or as a study involving multiple cases. Bleijenbergh (2000) claims that there is general agreement that a multiple-case study design offers the best opportunities for testing theories and frameworks as it enables researchers to systematically compare variation between the cases in such a way that theory testing is conducted with due process and rigour (Herriott and Firestone 1983).

Figure 29: The research tripod



Source: as adapted from Farquhar (2013) citing Yin (2014)

The continuing debate amongst scholars concerning the selection of case studies references the 1843 publication, *A System of Ratiocinative and Inductive* by John Stuart Mill, in which he considers the systematic

comparisons of social phenomena. In describing the “method of agreement” and “method of difference” (Stuart Mill 1843, p.462), it can be claimed that he was instrumental in laying the foundations for contemporary case selection in multiple-case study research. In using the “method of agreement”, the researcher selects two or more instances where the same social phenomenon occurs, but in very different circumstances and through comparing the two cases, the researcher can eliminate all contextual variables that are not necessary for the phenomenon to occur. The researcher is therefore able to infer that the variables which the two phenomena have in common are probably instrumental to the event that occurred.

In contrast, using Mill’s method of difference, researchers choose instances that have similar or comparable circumstances, yet differ in the presence or absence of the phenomenon being studied. Consequently, researchers can isolate the variation in circumstances of the multiple cases.

The case study is relevant to researchers wishing to gain a rich understanding of the context of the research (Kulatunga et al. 2007), the views of the actors and the associated phenomena within a flexible arrangement and, accordingly, an exploratory or explanatory approach may be adopted with the former being appropriate where existing theory and a conceptual framework is used to inform data collection. Farquhar (2012) makes the case for this, writing,

“The collection of the evidence that forms the empirical method should not be collected without reference to underlying concepts. In case study research, the role of theory, according to Yin (2009) is part of the blueprint structure.” (Farquhar 2012, p.35).

Irrespective of whether the research is of a positivist, critical realist or interpretivist nature, scholars accept that theory forms one leg of the tripod in case study research and Yin (2014) recommends that the case study method

needs a theoretical perspective at the beginning of the investigation as it affects the research questions, analysis and interpretation of findings. Farquhar (2012) concurs with Yin on this matter pointing out that the conceptual framework emerges from the literature review to guide the study and subsequent data analysis. This approach differs from that of other qualitative research strategies such as grounded theory and ethnography, which do not use a theory to guide the study (Corbin and Strauss 1990; Gioia and Chittipeddi 1991; Glaser and Strauss 1999).

Eisenhardt (1989) also states that an *a priori* specification of constructs can also help to shape the initial design of theory building research but cautions that “preordained theoretical perspectives or propositions may bias and limit the findings” (Eisenhardt 1989b, p.536). Moreover, Yin (2003) points out that case studies are generalisable to theoretical propositions but not populations or universes. They do not represent a sample and hence the objective of conducting a case study is to expand and generalise theories through analytical generalisation (Curtis et al. 2000) and not to enumerate frequencies (statistical generalisation) (Yin, 2003).

Burns (2000) states that from within the positivist paradigm researchers are required to study human phenomena in an objective manner. Burns (2000), however, goes on to argue in relation to theory and frameworks, that the framework can only ever be a momentary glimpse or snapshot of reality in that such objectivity is impossible because objective reality and the subject are always in the process of what Heraclitus describes as *becoming*, (Kahn 1999). Accordingly, they “can never be apprehended other than through preconceived and always partial frameworks or paradigms” (Burns 2000, p.35). Burns (2000) concludes therefore, that all research is infected by researcher subjectivity and acceptance of truth must ultimately reside within an interpretivist paradigm. McGinn (2000) echoing the views of Burns (2000), adds that the research methods adopted in any particular case study depend upon the guiding frameworks for the research. She adds that,

“credibility is a relative judgment taken from a particular perspective, rather than a definitive claim about the case study as a whole” (McGinn 2000, p.244).

Godfrey and Hill (1995) in their classic paper on the subject of observing the unobservable, criticise realist research stating that qualitative methodologies that feature multiple case studies, event histories, and ethnographic inquiries that involve interpretation may offer the most appropriate means by which researchers may observe the effects of otherwise unobservable, idiosyncratic effects. In making this statement, Godfrey and Hill (1995) allude to syllogistic conclusions that can, and do, occur in the absence of deep understanding of phenomena.

The Theoretical Grounding for a Multiple Case Study

Within the literature related to research methodology there has been a vibrant debate as to the nature of the case study and its relationship with theory (Eisenhardt 1989b; Gibb-Dyer and Wilkins 1991). Eisenhardt (1989) proposes an approach to building theory that Gibb and Wilkins (1991 p613) argue is a hybrid form of case research that is overly focussed on construct development and has, as a consequence, marginalised context and the rich background that results in restricting theory development. Gibb and Wilkins (1991) suggest that the telling of good stories is the essence of a case study (in the singular) and posit that a multiple case study can only offer thin descriptions with a focus on surface data rather than “deeper social dynamics” (Gibb and Wilkins 1991 p615). In contrast Yin (1981) states that conclusions may be drawn from a group of cases, and that multiple case studies “are appropriate when the same phenomenon is thought to exist in a variety of situations” (Yin 1981, p.101) and advises that the use of three or four cases are sufficient once the phenomenon has been demonstrated to occur in each case. This study follows Yin (1981) as a combination of evidence from the literature and author insight points towards corresponding phenomena across cases.

Case Study Protocol

According to Yin (2013 p. 84) a case study protocol is a pre-requisite of effective case study research and is instrumental in establishing research procedures as a series of sequential steps and rules designed to enhance the reliability of case study research and furthermore acts as a guide to researchers whilst carrying out data collection from cases.

The protocol for this study is shown in full in Appendix 7 and offers an overview that includes the aim and objectives of the research, the data collection procedures, the data collection questions and a guide to the findings and outcomes within the unit(s) of analysis. Table 26 outlines the stages of the case studies together with modes of analysis and the associated objectives.

Table 26: Stages of the Case Study

Stage	Mode of Analysis	Objectives
Preliminary	Questionnaire survey	a) Explore context and respondents background, beliefs and attitudes
Stage 1	Semi-structured interviews, document, web site and Companies House reviews observation of board meeting	a) Identify attitudes to corporate governance and its value b) Identify corporate governance practices in the board c) Identify owner-manager attitudes to risk d) Identify links between governance, risk & crises
Stage 2	Reflection and analysis of data from Stage 1	a) Assess the standard of governance as practiced b) Evaluate attitudes to risk and crises and continuity

Source: Author

Planning the Research

Case study research according to Thomas (2016) can involve what he refers to as a “Key Case” such as the Bhopal chemical discharge from the Union Carbide plant; an “Outlier Case” where the incident is noteworthy due to its unusual characteristics, an example of which examined the phenomena of longevity amongst the residents of the state of Kerala in comparison with the remainder of India, or a “Local Knowledge Case” that is “an example of something in your personal experience about which you want to find out more” (Thomas 2016, p.99). This study is firmly rooted in the third of Thomas’ descriptors.

The proem to the design of this study was a pilot study developed from the creation of a story-board that emerged from the literature, the pilot study, a pre-interview questionnaire and from the direct experience of the author as a director of several small businesses. The *a priori* assumption within the story-board (see Appendix 5) is the idea of the board as the thinking and controlling mind of the company set within a complex arrangement of internal and external drivers and a core value set that emanates from the owner-manager in and around whom the practice of corporate governance is enacted to a greater or lesser degree.

The story-board identifies the heterogeneity and scope of the internal and external drivers, phenomena and actors that influence and bear upon boards operating within small companies and highlights the respective outputs in terms of the board’s function as either “pilot” or “watchman”. It also underscores the way in which the risk management process functions, albeit to varying levels of sophistication. Whilst the complexity reflected in this storyboard may, at first glance, appear to be considerable and possibly overstated, the inter-related activities in which a small company engages vary little from large companies other than in scale. A small company must operate within the terms of The Companies Act (2006) with few exemptions; it must operate within the terms of the Health and Safety at Work Act (1974)

and comply with Companies House requirements, the demands of HMRC, inspections and directives from public authorities and from specifiers and customers. In meeting all these obligations, a key difference between a small enterprise and a large company is however the disparity in resource availability. That scarcity is a key component to understanding this thesis.

Case Study Conceptual Model and Research Questions

Yin (2014) describes five components of case study research design as being “especially important” (Yin 2014, p.29) namely,

1. The study questions
2. Propositions—if any [which in this study are absent]
3. The unit(s) of analysis
4. Linking data to propositions
5. The criteria for interpretation

Taking up the first point, and arising from the literature review the theory and study questions are based upon a provisional conceptual model for corporate governance, risk and crisis management in small companies, see Figure 30.

Figure 30: Provisional Conceptual Model for Corporate Governance, risk and crisis management in small companies:



Source: Author

The provisional model is developed for two reasons: firstly, because it begins to reveal the complex relationship between corporate governance in whatever form it is manifested, the influence of the owner-manager in the practice of corporate governance and the board's attitude relating to risk and crisis management. Secondly, the model is intended as guide to data collection and analysis. The model is not however without limitations, but nevertheless it identifies key contributory components such as beliefs, attitudes, memories, culture, change and process considerations.

The model is not intended to represent a hypothesis to be tested, but rather serves as a platform for increased understanding of corporate governance in small companies. This is by no means a unique approach as other researchers have created conceptual models not for the purpose of testing but with the aim of illustrating possible relationships between concepts prior to empirical work (Elo and Kyngäs 2008).

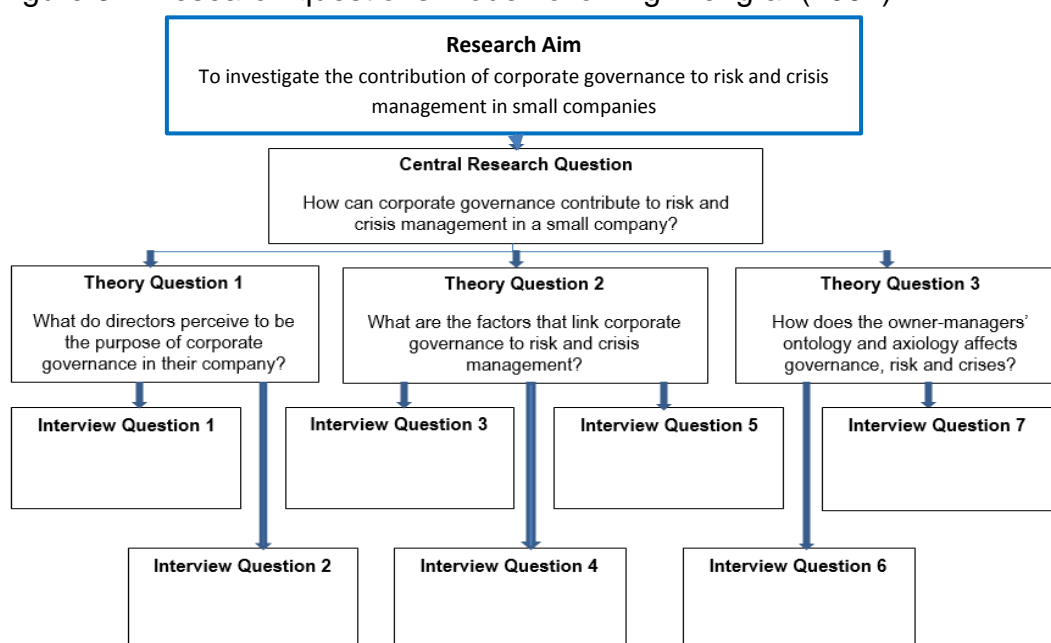
The model is underpinned by three critical assumptions refined from those leading to the storyboard. The first assumption is that owner-managers in small companies tend towards a default position of volitional reactivity and the phronetic and are frequently vague as to intentionality concerning vision and strategy (Mintzberg and Waters 1985; Clarke and Klettner 2009). Secondly, that operational and practical imperatives related to commercial survival will invariably take precedence over issues related to corporate governance and ethics which are perceived as being located in the rear support echelons rather than positioned at the front line of the business. (Crossan et al. 2015; Falkner and Hiebl 2015). The third underpinning assumption is that the owner-manager's personal disposition is the determinant of the risk profile of the business (Gilmore et al. 2004; van den Heuvel et al. 2006).

Wengraf's Three-Stage Pyramid Model (Wengraf 2001) is deployed in the structuring and conduct of the semi-structured interviews, see Figure 31, a critical element of case study research, that were undertaken. Prior to the

conducting of the semi-structured interviews a pilot study ($N=6$) was conducted and from that, interview questions were modified and refined. As a means of triangulation, and to achieve an understanding of context and respondent background, beliefs and attitudes a “61-statement” exploratory questionnaire was distributed and completed (see Appendix 9) and returned to the author prior to interviews taking place. To inform the interview questions, the responses to the statements contained within the questionnaire were analysed with a view to testing validity and consistency of responses given during the interviews.

The structures of the semi-structured interviews followed Wengraf (2001) who states that the interviewing model is based upon the primacy of the research question and upon the distinction between the theory-language used in research questions and the language used in interview interventions where a vernacular that is appropriate to the respondent is necessary.

Figure 31: Research questions model following Wengraf (2001)



Source: Author

In preparing the interview protocol, Mason (2002) suggests that in the first instance the researcher must decide on the content of the interviews and the nature of the interview questions. Accordingly, and following Mason (2002), the interview questions, as previously stated, were founded upon the literature review, the conceptual model and in addition, the author's thirty years of experience in chairing the boards of small companies.

This is a factor considered to be an additional resource upon which to draw according to Myles L. Mace who confirms that he leans heavily upon his twenty-five years of experience gained as a serving director on various boards. The abstract of his book states that,

“As a result of his experiences, he [Professor Mace] concluded that there was a considerable gap between what directors in fact do and what the business literature said that they do” (Mace 1971, p.1 Abstract).

Hence the author, following Mace, considers his own insight into the workings of the boards in small companies to be a unique and valuable source of information and knowledge that can add authenticity and value to this research. The research aim has morphed in its nuances and gradations during the development of knowledge and ideas associated with this thesis. To reiterate, the research aim is to investigate the contribution of corporate governance to risk and crisis management in small companies.

Based upon the literature and lived experience, the research question is "How can corporate governance contribute to risk and crisis management planning in small companies?"

Table 27 summarises the progress and development of activities and events that result in the formulation of the research and the way that issues that are either apparent or emergent are addressed.

Table 27: Progress towards defining and realising the research aim

1. Identification of the phenomenon
The limited research into corporate governance in small companies concludes that meaningful practices are, in many instances, non-existent and that directors pay little more than lip-service to this element of boardroom activity. The pilot interviews reveal that owner-managers are largely unaware of the constituents that comprise corporate governance and its dual role of pilot and watchman. This preliminary research displays a dearth of knowledge of the most rudimentary structures of managing risk and the policies and practices that may assist the company in avoiding a crisis or in the event of such an event occurring, its management and containment.
2. Identification of gaps in the literature
This research is set in the context of small companies, an area that is widely acknowledged as being under-researched. Likewise, corporate governance in small companies is under-researched with most studies examining various aspects of corporate governance in listed companies. This corpus of work has limited relevance to small companies as its theoretical basis is frequently related to agency theory and dispersed ownership. The literature ignores the phenomena related to corporate governance as a consequence of the overlapping spheres of the private and the business and the significance of owner-manager dominance in decision making.
3. Focus of the study
From the pilot study and the pre-interview questionnaire a fundamental issue is evident in that whilst owner-managers and other directors agreed with best practice governance as expressed in an appropriate code, their corresponding behaviour is that of the marginalisation of industry developed guidelines. The tautological matter of poor governance leading to added personal as well as business risk and the associated consequences was met with nonchalance. Prior research cannot adequately explain this form of denial.
4. The philosophical journey
Drawing from the origins of Process Philosophy and the concept of phronesis, the research questions address a period of five years as the timeframe in which a crisis had occurred as a determinant of inclusion with in the research sample and the way in which the practical issues of governing and managing had been addressed. The idea of constant change, of renewal and re-invention is a theme that runs throughout the research adjacent to questions asking how directors have acted in crisis situations
5. The research paradigm
This research is situated with in the constructivist interpretive paradigm that seeks to understand the constructions and reconstructions held by the respondents that embraces a subjectivist epistemology. The role of the researcher in this study is such the researcher's background and experience may shape understanding of the phenomena (Guba and Lincoln 1994).

Source: Author

The interview questions coalesce around three broad categories; firstly, questions concerning the perceptions relate to the respondent's notions of the concept of corporate governance; secondly, questions which explore the respondent's view on where risk is situated in the context of corporate governance and thirdly questions about the contribution of corporate governance to risk and crisis management. The questions are framed in an open manner to encourage the respondents to talk freely and expansively and where it is evident that there is evasion and obfuscation, prompts and clarifications are given.

The questions used are of open-ended character "that are typically used in exploratory studies" (Remenyi et al. 2009, p.152) and of a "how, what, why, and who" nature.

Other questions include experiential and behavioural questions concerning actions and reactions, beliefs, values, attitudes and feelings. These questions seek to elicit responses as to what happened and why and to determine what the respondents did in terms of implementation. "Opinion and values questions" help to determine what the respondents see as the benefits and drawbacks of the corporate governance and risk management.

In contrast, "feeling questions" help to discover the attitudes of the respondents towards the corporate governance and associated matters. The details of the interview questions, see Table 28, are shown below.

The Multiple Case Study

The literature points towards a multiple case study as comprising a small number of cases with Yin (2014) suggesting that in small business research "three or four cases might be selected" (Yin 2014, p.58).

Table 28: Theory and Purpose Interview Questions

<p>TQ1 Questions relating to purpose of corporate governance</p> <p><i>The purpose of this section is to determine the nature of governance in the company and the policies, practices and processes related to the functions of the board. The questions reflect the issues raised in the literature associated with governance in small companies</i></p>	<p>15-20 minutes</p>
<p>IQ1a What do you understand by the term corporate governance and IQ1b What added value does corporate governance contribute to a small company like yours?</p>	
<p>IQ2 In what ways do the values and beliefs of the owner-manager influence corporate governance?</p>	
<p>TQ2: Corporate Governance and Risks</p> <p><i>The purpose of this section is to determine the links between governance, risk and crisis management</i></p>	<p>15-20 minutes</p>
<p>IQ3 How would you describe the way in which governance relates to risk management in your company?</p>	
<p>IQ4 What specific policies enabled directors to manage a crisis that the company has faced recently?</p>	
<p>IQ5 How do you determine a risk in terms of transfer, acceptance or mitigation?</p>	
<p>TQ3: Risks and Crisis Management Planning</p> <p><i>The purpose of this section is to determine how the attitudes and beliefs of the owner-manager influence governance, risk and crisis management</i></p>	<p>15-20 minutes</p>
<p>IQ6 What is the owner-managers' attitude towards risk and crises – a risk taker or risk averse?</p>	
<p>IQ7 What plans are in place to ensure business continuity post any crisis?</p>	

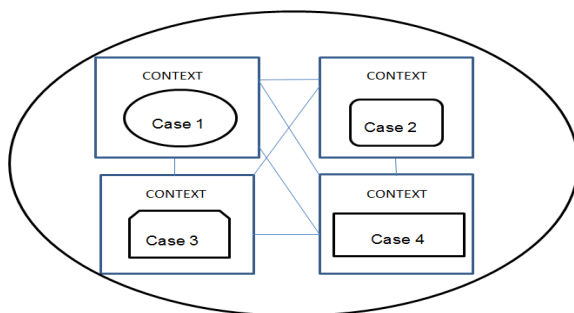
Source: Author

Following Yin (2014), four cases are selected for this study, a number which is also in line with the suggestion of Eisenhardt (1989) and Gibbert et al.

(2008), who propose that four cases are adequate in order to make relevant cross-case comparisons and enable a sound basis for analytical, not theoretical, generalisation.

The aim of a case study, according to Remenyi et al. (2009), is “to provide a rich, multi-dimensional picture of the situation being studied”(Remenyi et al. 2009, p.166). They do however qualify this statement and offer a word of caution stating that in most circumstances, “a single case study approach should be regarded as high risk by a business and management researcher”, (Remenyi et al. 2009, p.181) whilst accepting that there are both advantages and disadvantages related to the use multiple case studies. One such disadvantage may be that of lack of depth, yet the major advantage of a multiple case study approach is that it confers robustness and validity (Farquhar 2012). Using multiple cases also offers an opportunity to analyse the frequency or prevalence of phenomena across cases, see Figure 32, that may not lead to theoretical generalisation, which Thomas (2016) describes as a “pretty useless” pursuit (Thomas 2016, p.69) when applied to the social sciences, but towards a wider heuristic and the production of provisional knowledge that contributes more to the *phronetic* than to notion of *sophia*.

Figure 32: Multiple case studies and comparisons within a common boundary



Source: with reference to Yin (2014)

In contrast to the argument proposed by Thomas (2016), Gummesson (1991) believes that within a phenomenological study it is possible to generalise from

both multiple and single case studies providing that the analysis has captured the interactions and characteristics of the phenomena being studied . Taking a different approach, Howell (2013) states that generalisation is firmly associated with a positivist approach where a relationship can be established between a sample and a population but adds that, “this is not the case for phenomenological, constructivist or participatory studies”(Howell 2013, p.184) and that in qualitative studies it is more concerned with

“generalisation from one setting to another; the extent that theoretical frameworks developed in one setting can be applied to other situations” (Howell 2013, p.184).

Yin (2014) however chooses to distinguish between statistical generalisation and analytic generalisation, the latter involving corroboration or rejection of the theoretical framework arising from the literature review or new concepts emerging from the research itself, either of which exist at a conceptual level above the practicality of the case. Yin (2014) would appear, like Aristotle, to accord greater status to sophia than to phronesis.

The author follows Thomas (2016) and Howell (2013) both of whom propose powerful arguments against generalisability within a case study approach. The author concludes that whilst a multiple case study does not lead to a general theory nor is it capable of generalisation, such research can result in the production of what Bourdieu termed a “thinking tool” (Wacquant 1989, p.50) and furthermore, Wacquant (1993), writing on Bourdieu, expanded this concept to “a theory of intellectual practice and [of its] inherent limitations” (Wacquant 1993, p.236). Eisenhardt (1989), also suggests an ameliorated outcome arguing against those who would seek generalisable theory from case studies when she writes,

“The final product of building theory from case studies may be concepts, a conceptual framework, or propositions or possibly midrange theory.” (Eisenhardt 1989b, p.545).

Accordingly, that view is adopted in this research with particular regard to a conceptual model that is furthermore associated with Bourdieu's notion of a "thinking tool" as a practical instrument consistent with the concept of phronesis.

Research Ethics

Bell and Bryman (2007) conduct research amongst nine professional bodies engaged with the social sciences and subsequently identify a number of principles concerning ethical practice as defined by many of those bodies. Ten such principles emerged, see Table 29.

Table 29: Ten key principles in research ethics

1.Ensure no harm to participants	6. Ensure informed consent
2.Honesty and transparent communication	7.Protect dignity of respondents
3.Protect privacy of respondents	8.Ensure confidentiality of data
4.Declare affiliation and conflict of interest	9.Avoid false reporting of findings
5.Avoid deception and misrepresentation	10.Respect anonymity

Source: Bell and Bryman (2007)

This research has complied with these principles and in addition has been subject to the internal ethics validation process of Bournemouth University.

Figure 33 numerates each of the principles espoused by Bell and Bryman (2007) and is followed by an affirmation that these requirements have been met in full. See also Appendix 8 for additional details of research ethics.

Figure 33: Research ethics compliance

1. The field research is conducted on respondent's premises in an office, meeting room or at their home setting that was free from hazard and extraneous noise.
2. A letter is sent to all participants explaining the aims of the research together with a participant information sheet and prior to each interview the respondents are reminded of their rights to terminate the interview or to refuse to answer any question.
3. Interviews are recorded and transcribed by the researcher and allocated codes so as to anonymise data and this assurance is included in the letter sent inviting participation and in the participant information sheet.
4. Respondents are selected on the basis that there is no material relationship with the researcher that may result in a conflict of interest and in preliminary meetings they are advised that the research was not sponsored.
5. Respondents are assured that the research is for academic purposes only.
6. All respondents are required to sign a consent form based upon fully disclosed information contained in a participant information notice.
7. The research does not involve any human contact other than a handshake and is conducted in a professional manner and in an atmosphere of mutual respect.
8. Data is stored in password protected files and in locked drawers accessible only to the researcher.
9. The data and findings are subject to scrutiny by two senior academics and an external examiner
10. Respondents are allocated codes to ensure that no individual organisation or person may be identified

Source: Author

Chapter 4-Data Collection and Methods of Analysis

Overview of chapter

This chapter outlines the criteria for the selection of participant companies. It then summarises the fieldwork undertaken and considers a range of data collection methods and forms of analysis.

The research uses Interpretive Phenomenological Analysis as the preferred method to analyse systematically data from a series of semi structured interviews that are conducted following an exploratory questionnaire.

The chapter concludes with an explanation of data reduction and the themes that emerge from the analysis that was carried out with the assistance of NVivo software.

The Unit(s) of Analysis

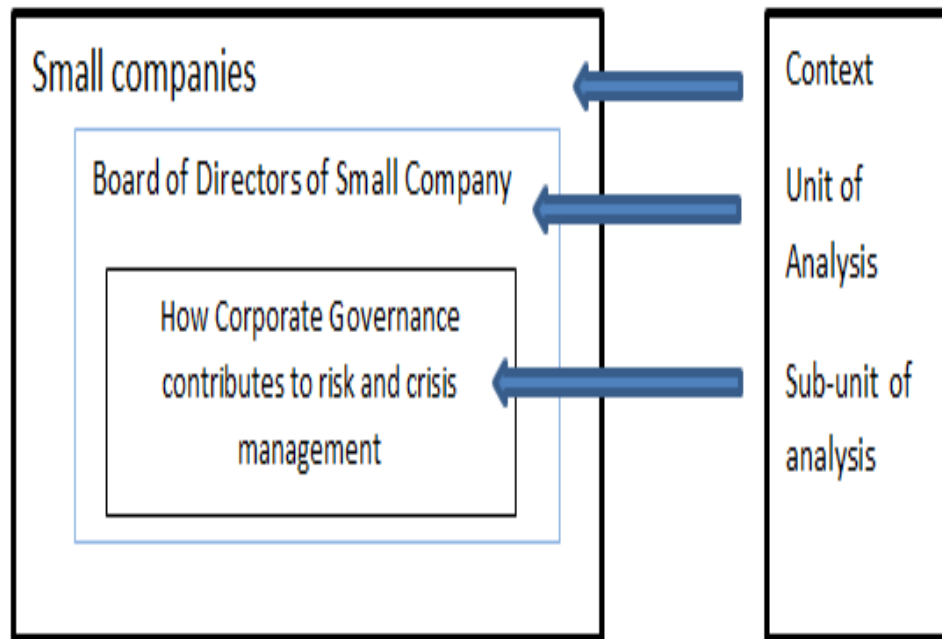
Case studies in business and management research have an inbuilt and recurrent issue with regard to the establishment of boundaries that delineate both the starting point and the end point (Remenyi et al. 2009) and thus defining the unit of analysis is critical in specifying boundaries, focus and direction.

In this study the unit of analysis within all four cases is the board of directors within the context of a small company and within that unit resides a further embedded sub-unit of analysis relating to how the application of corporate governance contributes to risk and crisis management planning, see Figure 34.

Selection of Cases and Respondents

Curtis et al. (2000) in their own interpretation of the criteria for sampling state

Figure 34: Case embedded as a secondary unit of analysis



Source: With reference to Yin (2014)

that sampling needs to be relevant to the conceptual framework and research questions; should be capable of generating rich data related to the phenomena to be studied; should enhance generalisability – although many do not accept the validity of this notion (Howell 2013; Thomas 2016); produce believable descriptions; maintain ethical standards and should be feasible in its execution and resource requirements.

This checklist may be considered by some to be highly prescriptive and pedagogic but nevertheless it presents a useful framework designed to apply rigour, process and structure.

The “checklist” was used judiciously as broad guide to sampling and the wider research protocol.

Table 30 illustrates the relevance of the criteria proposed by Curtis et al. (2000).

Table 30: Sampling criteria

Criteria Sampling Parameters	Criteria Met
Relevance to conceptual framework	Yes – using pre-existing theory and extant literature
Potential to generate rich data	Yes-this is an under-researched area
Analytic generalisability	Yes- but not theoretical generalisation
Believable explanations	Yes – an important validating criterion
Ethical	Yes- fully compliant with the university policy
Feasible	Yes-access was possible, however board observation was a matter of concern to some

Source: with reference to Curtis et al (2000)

In order to produce depth of evidence, this study uses four cases. Each case is a “small company” so defined by UK Government company criteria. Each of the participating companies met specific and detailed criteria related to location, sector, shareholding and history of crises.

Collis and Hussey (2003) state that case (or cases) selection need not require a representative and structured sample, which is the norm in a quantitative study where the sample is reflective of a given population, as the purpose of qualitative case study research is not concerned with statistical generalisation.

Accordingly, the selection of cases is made on the basis of non-probability, purposive maximal sampling (Creswell 2007) using size, sector and the

incidence of a crisis, self-defined by the owner-managers, having taken place within the past five years so as to allow meaningful cross-case analysis.

Given the research purpose and the subsequent research questions, it is recognised that access to the inner workings of boards may present an issue, as Daily et al. (2003) point out, directors are reluctant to invite researchers into the board's deliberations and state that this "is understandable" (Daily et al. 2003, p.379).

Daily et al. (2003) add that at the time of writing, boards have been largely unwilling to provide such access due in part to additional shareholder scrutiny and the risk of lawsuits in the case of plc boards. Langevoort (2001) evinces another explanation of this reticence, writing that,

"increasing the liability exposure for directors who fall down on the job and fail to prevent some form of misbehaviour by insiders" (Langevoort 2001, p.800).

According to Weitzel and Jonsson (1989) and specific to this study, the prospects of access to boardroom for firms experiencing a crisis are extremely low as directors of these companies are unlikely to expose themselves to unnecessary scrutiny beyond their immediate professional advisors. It was therefore of little surprise that, whilst individual directors agreed to participate in interviews, and despite assurances regarding confidentiality, consent was given in only one case for the researcher to be "a fly on the wall" in the boardroom during a meeting of the directors.

Data Collection

According to Vissak (2010), "case study data can be collected from multiple levels, perspectives and sources" (Vissak 2010, p.373) and hence, the data collection medium should facilitate the gathering of differing views and opinions of respondents and the additional use of secondary data from other sources. To that end, the sources used in this study are many and varied

with the main stream of data emanating from a series of semi-structured interviews which, as noted by Silverman (2006), seek to “generate data which gives an authentic insight into people’s experience” (Silverman 2006, p.118) and as such enable an exploration of the *lebenswelt* of the directors of small companies and how corporate governance contributes to risk and crisis management planning.

Yin (2014) also states that the data for a case study should come from a range of sources: documents, archival records, interviews, direct observation, participant observation and physical artefacts. Such diversity of sources of evidence, it is claimed, enhances the strength of the study and can add to “new insight” (Farquhar 2012, p.79). Abeysekera (2015), developing this theme, suggests that the benefits of such multiple sources of evidence can be optimised by maintaining a database in which all the data are stored in a systematic fashion and as such offers an opportunity to revert to primary data thereby resulting in greater reliability (e.g. Yin, 2009). Such a database is created as part of this research and acts as a repository of the multiple sources of evidence and a range of associated external and internal data.

Data collection takes place in two distinct stages. In the first instance, data from the directors of the four companies participating in the research are collected through a “61 statement” questionnaire, details of which are contained in the latter parts of this chapter, and by an initial fact-finding visit that also involves the author responding to questions and concerns from the owner-managers. This information is used to fine-tune both the conceptual framework and research questions. In the second stage, data are collected from directors and owner-managers of the companies concerned through one-to-one semi-structured interviews and in once instance through observation. Corporate websites, Companies House, marketing collateral and public databases provide secondary data.

As this study is exploratory in nature and aims to gain rich insights into the role of corporate governance, risk and crisis management in small companies, semi-structured interviews using a pre-prepared framework (Maykut and Morehouse 1994) is considered to be, amongst others, an appropriate method for primary data collection. Martin et al (2009) state that the purpose of such interviews is,

“to yield insights about less researched concepts that can guide theory development and/or future research and hence can be empirically verified in subsequent research.” (Martin et al. 2009, p.98).

Patton (2002) likewise, states that the semi-structured interview enables the researcher to gather data in great detail and to create a conversational style. Such a style assists in developing an atmosphere that is conducive to expansive answers thereby enabling the researcher to collect deep-mined data whilst covering a topic of interest to both parties (Gill et al. 2008).

Additional secondary data are collected through company policies, product brochures, on-line resources, observation, a personal letter in one instance and an array of government and non-governmental reports that provided useful information as a backdrop to the field research.

Due to the open-ended nature of the inquiry, the data gathered from the interviews are that of unstructured text which at times comprised lengthy and meandering paragraphs. It is a non sequitur that in a semi-structured interview the interviewee responds in a precise and focussed manner. Rather, the respondent may frequently answer questions in advance of the asking and as a result, the response to a particular question may reside elsewhere in the text thus creating hermeneutical complexity in conducting the analysis.

Accordingly, the task of the researcher is to create order and structure from the unstructured data and discover meaningful and analysable themes thereby facilitating conclusions as the study progresses.

In three cases, the semi-structured interviews are conducted on a one-to-one basis in private offices at the company premises. In the fourth case, the interview is held at the respondent's home. In each instance around 80 minutes is spent with the respondent, the first 15-20 minutes being unrecorded conversation about their role in the company designed to act as an "ice-breaker" and to establish rapport. Some weeks prior to the interview the respondent companies were visited by the researcher and upon agreeing to participate then received an information briefing document and a letter explaining the nature of the research. Prior to the interview respondents signed a document confirming that they fully understood the nature of the research; that participation was voluntary; that they were free to refuse to answer a question and to withdraw from the interview and to permit recording. (Appendix 8)

Fieldwork

For a summary of the fieldwork conducted, see Table 31.

Table 31: Summary of Fieldwork

	CO1	CO2	CO3	CO4
Dates of visits and interviews	3 Nov 16, 22 Mar 17 24 Mar 17, 26 April 17, 1 June 17	17 Dec 16 25 Jan 17 16 Feb 17	21 Oct 16, 22 Dec 17 27 Jan 17, 15 Mar 17	20 Dec 16 22 Feb 17
No interviews	4	2	2	1
Duration (hrs)	8	6	7	4
Data collected	Interviews, observation, premises tour, questionnaire	Interviews, premises tour, questionnaire	Interviews, premises tour, questionnaire	Interviews questionnaire, personal correspondence

Source: Author

In conducting a semi-structured interview, the author is aware that it is possible that interviewer bias may impact on the reliability of the findings and

hence both verbal and non-verbal actions on the part of the interviewer should remain neutral and any manifestations of personal values and beliefs should remain suppressed throughout the interview. In spite of maintaining neutrality, a perceptive respondent may however detect subtle and sub-conscious body language agreeing with, or disapproving of a particular answer.

Respondent bias is also a possibility regarding sensitivity to questions that may imply or suggest weakness or a failure on their part, or on the part of the company, that could lead to socially desirable responses.

Likewise, behavioural indicators that suggest discomfort, embarrassment, obfuscation and evasion must be noted. Where there is a lack of clarity in any answer, it is incumbent upon the interviewer to probe more deeply until a sense of unease is evident in the respondent at which point progress should be made.

The author is also aware that the interviewer should engage in active listening and desist from interjections, interruptions and leading questions. Furthermore, the interviewer should be cognisant of the respondents dress and appearance, cultural sensitivity and the need to present a professional demeanour.

Further issues which the interviewer should recognise and react to may result from a low level of engagement or disinterest by respondents. Interviewers must also guard against lengthy answers that ramble into irrelevance, role reversal and where the respondent asks for interviewer advice, comment and opinion.

Respondent aggrandisement and status enhancement; emotional overload on the part of the respondent and the process of interviewing itself fracturing the narrative are all potential hazards to an effective interview.

Instances of these matters do arise during the interviews and accordingly appropriate measures are taken to then return to the interview's core purpose.

Transcription

All audio recordings are transcribed to facilitate data coding and analysis. Both audio recordings and transcriptions are imperfect representations or records of what was originally communicated. Consequently, all the interviews are audio-recorded and transcribed by the author and whilst this is a time-consuming exercise, it nevertheless ensures the researcher remains close to the text and feels both its rhythm and cadence. Each interview is saved as a separate file using a filename that preserves confidentiality yet is recognisable by the researcher. In a similar fashion, the researcher's name is changed to a code as is the name of the respondent. All questions are numbered at the start of the question to ensure consistency.

Where there are instances of hesitation, laughter, discomfort, sighs, head rolling, emotion and other non-verbal cues, these are noted in brackets within the transcribed text. To ensure the accuracy of the transcription process, a guide is devised for transcribing the audio recordings and this is shown in Appendix 11. Although authenticity is paramount, Mason (2002) states that information can be distorted or can vanish in the transformation from one media to another such as for example, from face-to-face communication to audio recordings and from audio recordings to transcriptions.

Mason adds that,

“A transcription is always partial partly because it is an inadequate record of non-verbal aspects of the interaction (even if you try to insert these in the form of field notes into the transcription afterwards), and also because judgments are made (usually by the person doing the transcription) about which verbal utterances to turn into text, and how to do it” (Mason 2002, p.77).

Despite the chance of a very small measure of degradation of data quality, the transformation from audio recordings to transcriptions is however necessary, and due to the amount of data collected, the support of NVivo Computer Aided Qualitative Data Analysis Software (CAQDAS) is required to assist with analysis. Self-memos are written to record ideas, comments and observations as the research progresses and during categorisation of the data. Miles and Huberman (2014) suggest that such memos are filed separately and are cross referenced, where appropriate, to transcribed text.

Analytical Techniques

Table 32: Data Analysis and Representation

Data Analysis & Representation	Case Study
Data Organisation	Create and organise files for data
Reading and Memoing	Read text, make notes and form initial codes
Describing data into codes and themes	Use categorical aggregation to establish themes or patterns
Classifying data into codes and themes	Describe the case and context
Interpreting the data	Use direct interpretation and develop “bridges between ideas”
Representing, visualizing the data	Present in-depth picture of case(s) using narrative, tables and figures

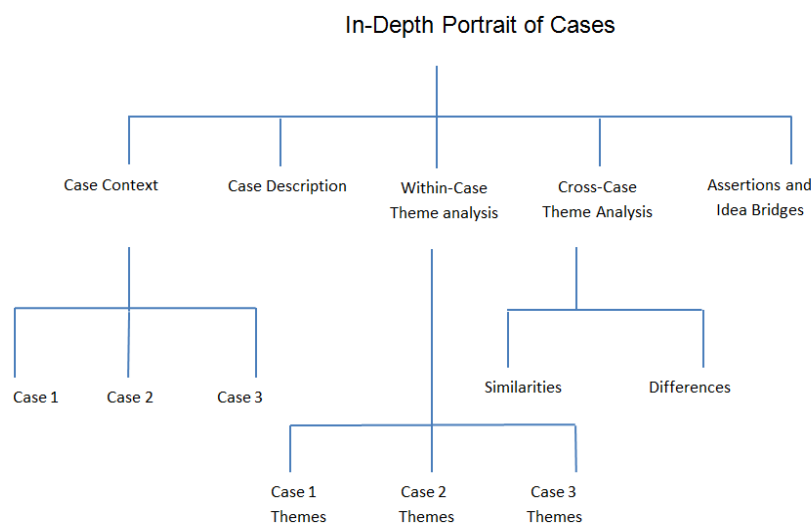
Source: with reference to Creswell (2013) and Thomas (2016)

As this research is inductive in nature, the analysis explores common themes, patterns and categories as they emerge from the research in order to discover new concepts and to find points of congruence and similarity.

Whilst the basis of inductive research lies within grounded theory (Corbin and Strauss 1990) which posits that theory emerges from the data, Remenyi et al. (2009) point out that preconceptions derived from practical knowledge and from the literature review cannot be avoided.

Hence this study has used a conceptual framework in order to act as a conjecture that, in turn, informs the research purpose and research questions with a “nod of the head” to the enlightened thinking of Charmaz (2014) and broadly following Creswell’s (2013) model for case study analysis and representation, see Table 32 and Figure 35. Although Creswell’s model for case study analysis is related to the research strategy adopted in this study, other process models dealing with greater depth as to data analysis offer route-maps through the maze of approaches to coding. Table 33 summarises the stages and processes involved in qualitative analysis according to Ritchie and Spencer (1994), Maykut and Morehouse (1994) and Van Kamm (1994).

Figure 35: Coding structure for case study analysis



Source: with reference to Creswell (2013 p.209)

Table 33: Analytical stages for data analysis

Authors	Process Stages	Application in NVivo	Strategic Objectives
Ritchie and Spencer	1.Familiarisation 2.Identify thematic framework 3.Indexing 4.Charting 5.Maping and interpretation	1.Open coding 2.Categorising codes 3.Coding on 4.In case and cross case analysis 5.Data reduction	Data Management Descriptive accounts Explanatory accounts
Moustaka as modified by Van Kaam	1.Listing and initial grouping 2.Reduction and elimination 3.Clustering and thematising 4. Identify invariance relating to a thematic label 5. Construct textual descriptors 6. Construct textual structural descriptors 7.Construct meanings of textual descriptors	1.Open coding 2.Categorising codes 3.Coding on 4. Data reduction and consolidation 5.Analytical memos and summary statements 6.Validate and synthesises analytical memos	Data Management Explanatory accounts Explanatory accounts
Maykut and Morehouse	1.Compare units of meaning for inductive category coding 2.Refine relationships 3.Expolore relationship patterns 4.Integrate data to write findings	1.Open coding 2.Categorising codes 3.Coding on 4.In case and cross case analysis 5.Data reduction 6.Analytical memos 7.Validate memos 7.Synthesise memos	Descriptive accounts Data Management Explanatory accounts

Source: with reference to Ritchie and Spencer (1994), Maykut and Morehouse (1994) and Van Kaam (1959)

All three of the models contained, see Table 33, suggest that qualitative data can be coded using a systematic approach irrespective of the methods used to collect the data and in spite of the free-flowing nature of semi-structured interviews that engender responses liberally and with spontaneity. The responses to questions, documental text and other source matter are categorised according to saliency of meaning rather than to a pre-determined template or a formulaic assemblage. (See Appendix 12 for the codebook used to manage node categories.) Such is the nature of coding that Miles

and Huberman (1994) state that “coding is analysis”(Miles and Huberman 1994, p.56) whilst Creswell (2009) offers an alternative approach writing that coding,

“involves taking text data or pictures gathered during data collection, segmenting sentences (or paragraphs) or images into categories, and labelling those categories with a term” (Creswell 2009, p.186).

Crang (1997) adds a fine point in crystallising the essence of coding commenting that what is generally of interest is,

“not so much the codes as the text they denote, not how often they occur but what is in them” (Crang 1997, p.188).

The following detailed review of qualitative analysis methods enables a deeper understanding and appreciation of the nuances between the various approaches to data analysis and as a consequence the rationale for method selection that is both systematic and detailed.

Thematic Analysis

Thematic analysis is the most commonly used method of analysis in qualitative research analysis (Thomas and Harden 2008; Guest et al. 2011) and is used for identifying, analysing, and reporting (themes) within data (Braun and Clarke 2006). The method of analysis should be driven by both theoretical assumptions and the research questions. Thematic analysis provides a flexible method of data analysis and allows for researchers with various methodological backgrounds to engage in this type of analysis. Critics argue that reliability with this method is of concern because of the wide variety of interpretations that arise from the themes, as well as applying themes to large amounts of text. Increasing reliability may occur if multiple researchers are coding simultaneously, which is possible with this form of analysis (Guest et al. 2011). In addition, Thematic Analysis is sometimes over reliant on the presentation of themes supported by participant quotes as

the primary form of analysis rather than as an outcome of rigorous data analysis processes (Bazeley 2009).

Content Analysis

Content Analysis is the analysis of texts of several types including writing, images, recordings and cultural items. It tends to focus at a detailed level, often providing word frequency counts and enabling quantitative analysis of what had initially been qualitative data (Ryan and Bernard 2000). The themes are frequently quantified and the unit of analysis tends to be a single word or a particular phrase. In this research the themes are not quantified and the unit of analysis is the board of directors and accordingly this method was rejected as inappropriate.

Discourse Analysis

Discourse Analysis covers a range of approaches to aid analysis of written, vocal, or sign language usage or other semiotic activity. It resides in a number of guises that includes dialects and sociolinguistics. It also requires a detailed theoretical and technological knowledge of semantics, syntax and etymology.

Narrative Analysis

Narrative Analysis emerged from within the broader field of qualitative research (Riessman 1993) and uses a wide range of sources that include texts, written and orally transmitted stories, autobiographies, diaries, field notes, letters, informal conversations, interviews, family stories, photographs and objects as the units of analysis to research and understand the way people create meaning in their lives as narratives. Narrative analysis is a commonly used technique in ethnographic research. Boje (2001) argues that whereas narrative analysis supports the idea of interpretivism it is however deficient in its theoretical perceptions.

Interpretative Phenomenological Analysis

Interpretative Phenomenological Analysis (IPA) is a relatively recent qualitative approach with its roots in psychology. Its idiographic focus aims to offer insights into how a particular person, in a unique context, makes sense of a specific phenomenon. Drawing upon the work of Merleau-Ponty, Husserlian phenomenology and the later work of Martin Heidegger related to existentialism and hermeneutics, IPA is concerned with exploring the detailed understanding of people's direct experience of reality thus gaining a rich understanding of the phenomenon in question.

Merleau-Ponty (1964) acknowledges the complexity of phenomenological data analysis in his essay “Cezanne’s Doubt” and it could be concluded that the work of the French artist Paul Cezanne with its tolerance of ambiguity encapsulates the tenets of the “prototypic phenomenologist” (Maykut and Morehouse p.34). Cezanne’s brush strokes and sensuous portrayals, Merleau-Ponty asserts, are akin to Wittgenstein’s “rough ground” with the subsequent contours that emerge uncircumscribed by a script to be followed or a formula to be adopted in the undertaking of qualitative inquiry.

Figure 36: Cezanne’s interpretive work Mont Sainte-Victoire



Source: Paul Cézanne, Mont Sainte-Victoire, 1902-04, oil on canvas, 73 x 91.9 cm (Philadelphia Museum of Art)

Merleau-Ponty may have been gazing at Cezanne's work "*Mont Sainte-Victoire*", (Cezanne 1902-1904) when he wrote,

"His painting was paradoxical: he was pursuing reality without giving up the rough sensuous surface, with no other guide than the immediate impression of nature, without following contours, with no outline to enclose the colours, with no perspectival or pictorial arrangements" (Merleau-Ponty 1964, p.12)

Accordingly, IPA is used to analyse the actors and their idiosyncratic behaviours, attitudes and beliefs within a case study where each individual's perception of reality albeit subjective and ineffable, nevertheless may be synthesized to a meaningful whole (Pietkiewicz and Smith 2012).

The small sample size of most IPA studies

"then enables the micro-level reading of the participants' accounts, which offers the possibility of some entree into the understanding" (Smith and Osborn 2012, p.42).

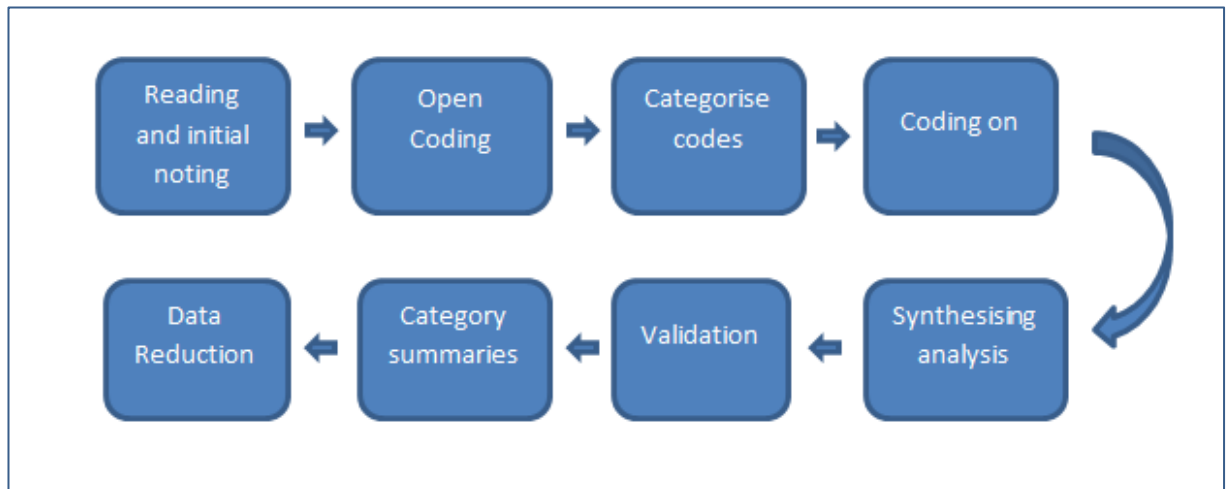
The inquiry is sharpened by IPA's inductive, interpretive analysis, providing an illumination of what is presented but importantly grounding that firmly in a close examination of what the participant has said and what can be inferred from both their words and actions.

By way of criticism, Smith (2011b) warns of the need for the researcher to guard against allowing an *a priori* assumption to impose conceptual categories whilst using IPA.

Given the conceptual framework that has been developed as part of this study, the author notes the advice of Smith (2011) and has been cognisant of the intrusion of personal bias leading to a potential distortion of the evidence and a manipulation of the data to support an *a priori* position.

The stages of the analytical process using IPA are detailed, see Figure 37.

Figure 37: Phases of analysis using IPA



Source: Author following Meehan (2017)

IPA is the method of analysis chosen for this study as it is based upon sound philosophical foundations and moreover, IPA is suited to a small sample where the elucidation of personal meaning related to lived experiences can be ascertained. The analytical strategy adopted in this study is informed by Ritchie and Spencer (1994) and derived from Pietkiewicz and Smith's (2012) guidelines and the work of Meehan (2017). An example of the categorisation stage using IPA, see Figure 38.

Figure 38: Screenshot of part of coding nodes categorisation used for question 2

Name	Sources	References
Authority of O_M	8	52
Ethical matters related to OM and the board	7	50
Conflict between profit and morals	4	11
Common ethical standpoint	3	3
Similar outlooks	2	2
Shared values across team	4	6
Golden rule	2	3
Values not shared by workforce	2	5
Dispersed locations leads to fragmented values	1	1
Lack of values and ethics across all businesses	1	2
Values and business context	4	10
Black or white values	1	1
Ethical relativism	1	1
Board meetings and ethics	1	1
Whistleblowing	1	4
O-M Dominance	8	52
Family culture sets the culture of the business	1	1
Chairman's role	2	4
OM view of profits	0	0

Source: Author

Pre-Interview Exploratory Questionnaire

An exploratory questionnaire (see Appendix 9) is sent to all respondents two weeks prior to the dates set for the semi-structured interviews in order to prompt the respondents to think critically on issues related to the way corporate governance operates within the business and to discover practices and beliefs associated with risk and crisis management. Respondents are asked to express a measure of agreement, using a five point Likert scale, in respect of 61 statements that are structured into four sections each dealing with a particular aspect of the research.

Statements 1-19 are focussed upon corporate governance practices and processes that could be said to represent good practice for a small company based upon the IOD's Corporate Governance Guidance and Principles for Unlisted Companies in the UK (2010), The Non-Executive Directors Handbook (2007), The IFC Family Business Governance Handbook (Abouzaid 2011) and the BSI Code of practice for delivering effective governance of organizations (British Standards Institution 2013a). Figure 39 is a screenshot of part of the 19 statements relating to corporate governance and also illustrates the responses, based on a Likert Scale, to the various statements. Cells highlighted in green show a measure of positive concurrence between respondents relating to the statement whilst cells highlighted in red show broad concurrence in the rejection of the statement. Concurrence is defined as an aggregation of "strongly agree" and "agree" or as "strongly disagree" and "disagree". Concurrence is also defined where the dominant response to the statement is "neither" in cells highlighted yellow.

Statements 20-48 are concerned with risk and seek to elicit responses concerning the directors' attitude to risk and the role played by the board in risk management and risk policy making. The statements are derived from academic literature and professional organisations including the Institute of Risk Management Standard 030820 (Institute of Risk Management 2002), BSI PD 6668 Managing Risk for Corporate Governance (British Standards

Institution 2000) and BSI PD ISO/TR 31004 Risk Management Guidance for the implementation of ISO 31000 (British Standards Institution 2013b).

Statements 49, 50, 51, 52, 60, 61 and 62 relate to crisis management issues and post-event business continuity. The statements are based upon academic literature and BSI 11200, Crisis Management – Guidance and Good Practice (British Standards Institution 2014).

Statements 53-59 seek to gain an understanding of the respondent's attitudes towards crises and differ from the remainder of the statements in that “strongly disagree” and “disagree” suggests a positive view of crisis management planning and hence the highlighting is reversed from the bulk of the responses. The statements are largely based upon the work of Mitroff and Anagnos (2000).

Figure 39: Screenshot of a section of the questionnaire showing corporate governance statements, responses and analysis

Question No	1	2	3	4	5	6	7	8	9
	The board has an established governance framework	The board has adopted a recognised code such as the ICD code for unlisted companies or BS 13500	There is a board charter or written terms of reference for the board and for any board committees	There is a division of responsibilities between the running of the board and the running of the business	The board is of sufficient size and comprises people with a range of skills to ensure its responsibilities are met	The board largely focusses upon the long term success of the company	The board meets sufficiently regularly to discharge its duties	The board agenda and papers containing appropriate information are sent out in advance of the meeting	There is a standard template for board reporting
Strongly agree	22.22%	11.11%	44.44%	22.22%	44.44%	22.22%	77.78%	66.67%	44.44%
Agree	22.22%	11.11%	0.00%	55.56%	55.56%	33.33%	22.22%	33.33%	33.33%
Neither	22.22%	33.33%	22.22%	11.11%	0.00%	33.33%	0.00%	0.00%	11.11%
Disagree	11.11%	0.00%	11.11%	11.11%	0.00%	11.11%	0.00%	0.00%	0.00%
Strongly disagree	22.22%	44.44%	22.22%	0.00%	0.00%	0.00%	0.00%	0.00%	11.11%
COI									
Strongly agree	0	0	1	0	1	0	3	3	1
Agree	2	0	0	3	3	3	1	1	1
Neither	1	3	2	0	0	1	0	0	1
Disagree	0	0	0	1	0	0	0	0	0
Strongly disagree	1	1	1	0	0	0	0	0	1
Total	4	4	4	4	4	4	4	4	4
Strongly agree	0%	0%	25%	0%	25%	0%	75%	75%	25%
Agree	50%	0%	0%	75%	75%	75%	25%	25%	25%
Neither	25%	75%	50%	0%	0%	25%	0%	0%	25%
Disagree	0%	0%	0%	25%	0%	0%	0%	0%	0%
Strongly disagree	25%	25%	25%	0%	0%	0%	0%	0%	25%

Source: Author

Figure 40: Screenshot of a section of the questionnaire showing risk statements, responses and analysis

Question No	20	21	22	23	24	25	26	27	28	29
	The board has established a risk oversight policy	There is a specific board committee that deals with risk	The board has established a risk management policy	There are formal record-keeping processes to ensure that important documents relating to risk are maintained and	There is a comprehensive whistleblower policy that allows whistleblowers to divulge unethical or illegal practices	Risk is a standard item on the board agenda	The board ensures that any discussion around strategy considers the full range of key risks to which the organisation is exposed	The risk management policy provides an overview of the risk governance structure of the organisation	The risk management policy outlines the steps involved in the risk management process	The risk management policy describes how risk management is integrated and embedded into organisational processes
Strongly agree	22.22%	11.11%	22.22%	11.11%	22.22%	22.22%	44.44%	11.11%	22.22%	11.11%
Agree	33.33%	0.00%	22.22%	33.33%	0.00%	22.22%	33.33%	11.11%	11.11%	11.11%
Neither	33.33%	22.22%	44.44%	33.33%	22.22%	11.11%	11.11%	33.33%	33.33%	33.33%
Disagree	11.11%	22.22%	11.11%	11.11%	22.22%	11.11%	0.00%	33.33%	22.22%	33.33%
Strongly disagree	0.00%	44.44%	0.00%	11.11%	33.33%	33.33%	11.11%	11.11%	11.11%	11.11%
COI										
Strongly agree	0	0	0	0	0	0	2	0	0	0
Agree	2	0	2	1	0	2	2	0	1	0
Neither	2	1	2	3	2	1	0	2	2	2
Disagree	0	2	0	0	2	1	0	2	1	2
Strongly disagree	0	1	0	0	0	0	0	0	0	0
Total	4	4	4	4	4	4	4	4	4	4
Strongly agree	0%	0%	0%	0%	0%	0%	50%	0%	0%	0%
Agree	50%	0%	50%	25%	0%	50%	50%	0%	25%	0%
Neither	50%	25%	50%	75%	50%	25%	50%	50%	50%	50%
Disagree	0%	50%	0%	0%	50%	25%	0%	50%	25%	50%
Strongly disagree	0%	25%	0%	0%	0%	0%	0%	0%	0%	0%

Source: Author

Figure 41: Screenshot of section of the questionnaire showing crisis statements, responses and analysis

Question No	49	50	51	62	52	60	61
	The company has appropriate crisis management framework to minimise the effects of a broad range of unanticipated events	The organisation uses a recognised framework with respect to crisis management planning e.g. BSI 11200	The board conducts crisis management scenarios to test the effectiveness of the plans	We have a relationship that links governance, risk and crisis management planning	The board has engaged with key stakeholders in the preparation of its crisis management plans	We have determined the maximum outage time from trading that we can endure following any crisis	We have a business continuity plan to enable us to operate following a crisis
Strongly agree	22.22%	0.00%	11.11%	0.00%	0.00%	0.00%	0.00%
Agree	44.44%	11.11%	44.44%	0.00%	11.11%	0.00%	0.00%
Neither	33.33%	33.33%	44.44%	22.22%	33.33%	22.22%	11.11%
Disagree	0.00%	11.11%	0.00%	33.33%	11.11%	33.33%	44.44%
Strongly disagree	0.00%	44.44%	0.00%	44.44%	44.44%	44.44%	44.44%
COI							
Strongly agree	0	0	0	0	0	0	0
Agree	2	1	2	0	1	0	0
Neither	2	2	2	0	2	0	0
Disagree	0	0	0	2	0	3	3
Strongly disagree	0	1	0	2	1	1	1
Total	4	4	4	4	4	4	4
Strongly agree	0%	0%	0%	0%	0%	0%	0%
Agree	50%	25%	50%	0%	25%	0%	0%
Neither	50%	50%	50%	0%	50%	0%	0%
Disagree	0%	0%	0%	50%	0%	75%	75%
Strongly disagree	0%	25%	0%	50%	25%	25%	25%

Source: Author

Figure 42: Screenshot of section of questionnaire showing crisis belief statements, responses and analysis

Question No	53	54	55	56	57	58	59
	Crises only happen to others. We are pretty invulnerable	Crises happen, but their impact on our business is small	Crises do not happen to a well-managed company such as ours	We are powerful and as such will be well protected from crises	If a crisis were to happen, it must be because someone else is has acted with malice and intent to harm	We need not worry about crises as, statistically, the chances of one occurring are small	Crises cannot affect the whole of our business since we have other premises independent of opne another
Strongly agree	11.11%	0.00%	22.22%	0.00%	0.00%	0.00%	0.00%
Agree	0.00%	11.11%	0.00%	0.00%	0.00%	22.22%	0.00%
Neither	0.00%	11.11%	0.00%	0.00%	0.00%	22.22%	0.00%
Disagree	11.11%	11.11%	11.11%	33.33%	11.11%	22.22%	33.33%
Strongly disagree	44.44%	33.33%	33.33%	44.44%	66.67%	33.33%	44.44%
COI							
Strongly agree	1	0	0	0	0	0	0
Agree	0	0	0	0	0	1	0
Neither	1	3	3	0	1	1	1
Disagree	1	1	1	3	1	1	2
Strongly disagree	1	0	0	1	2	1	1
Total	4	4	4	4	4	4	4
Strongly agree	25%	0%	0%	0%	0%	0%	0%
Agree	0%	0%	0%	0%	0%	25%	0%
Neither	25%	75%	75%	0%	25%	25%	25%
Disagree	25%	25%	25%	75%	25%	25%	50%
Strongly disagree	25%	0%	0%	25%	50%	25%	25%

Source: Author

Semi Structured Interviews

This section of the study begins with outlining the questions asked in the nine semi-structured interviews conducted with the directors of four small companies.

The interviews comprise seven questions as re-presented in Table 34 with the first question being divided into its two constituent parts. Further details are contained in the methodology chapter.

The transcribed text of each interview is then coded using NVivo.

In order to analyse, categorise and synthesise the answers to the questions, see Table 34, in respect of case study analysis, Yin (2009) suggests that four general strategies and five particular techniques may be used. These broad strategies and techniques are not mutually exclusive and accordingly researchers are free to use any or all in a number of combinations.

Table 34: Semi-structured interview questions

Q1a What do you understand by the term corporate governance? and Q1b what added value does corporate governance contribute to a small company like yours?
Q2 In what ways do the values and beliefs of the owner-manager influence corporate governance?
Q3 How would you describe the way in which governance relates to risk management in your company?
Q4 What specific policies enabled directors to manage a crisis that the company has faced recently?
Q5 How do you determine a risk in terms of transfer, acceptance or mitigation?
Q6 What is the owner-managers' attitude towards risk and crises – a risk taker or risk averse?
Q7 What plans are in place to ensure business continuity post any crisis?

Source: Author

The first of the four broad strategies Yin (2009) suggests researchers use in the process of analysis is that of dependence upon the theoretical propositions that led the case study. The original objectives of the cases in this study, whilst not based on propositions, but rather upon a conceptual framework emerging from the literature review which in turn gives rise to the research questions, lead to new substantive theory or constructs. This study therefore employs the conceptual framework as a basis for strategy of analysis.

Secondly, Yin (2009) proposes that developing a case description can be used when data has been collected prior to the creation of the initial research questions. As the research questions related to this study precede the collection of data this strategy is not adopted.

Thirdly, Yin (2009) states that both quantitative and qualitative analytical strategies could be required as some case studies may feature a considerable amount of quantitative data, in spite of qualitative data remaining as the focus of the study.

Accordingly, researchers may require computer software such as SPSS to analyse numerical data. Although this study uses a questionnaire, due to the small sample, subsequent analysis does not require significant data analysis capabilities and as such, quantitative analysis techniques were not used.

The last of the strategies that Yin (2009) suggest researchers may use to conduct case study analysis is that of examining rival explanations. It is axiomatic that even with in a single case there will be opposing and contrasting perspectives of respondents.

Although this study does not have rival propositions it is however evident that there are rival perspectives and dissonance and hence this strategy is used. For example, the literature on crisis management is clear that a commonly held position of directors is one of denial, yet the findings of this research, whilst not generalisable, point to a cautious, realistic and thoughtful posture in some cases.

The five techniques that Yin (2009) proposes for the analysis of data are explanation building, time series analysis, pattern matching, logic models and cross case synthesis.

The first technique of explanation building is widely used in descriptive case studies although it is used in exploratory case studies as a part of the hypothesis-generating process. Its objective is to develop ideas for further research. As this study is exploratory, the explanation building technique was

used. To illustrate, new data emerged from one of the case studies that could lead to further research regarding the impact of business failure on humiliation, private life, family security and inheritance.

The second analytical technique Yin (2009) proposes is that of time-series analysis. Time series analysis comprises various methods for analysing time series data in order to elicit meaningful statistics and other elements of the data.

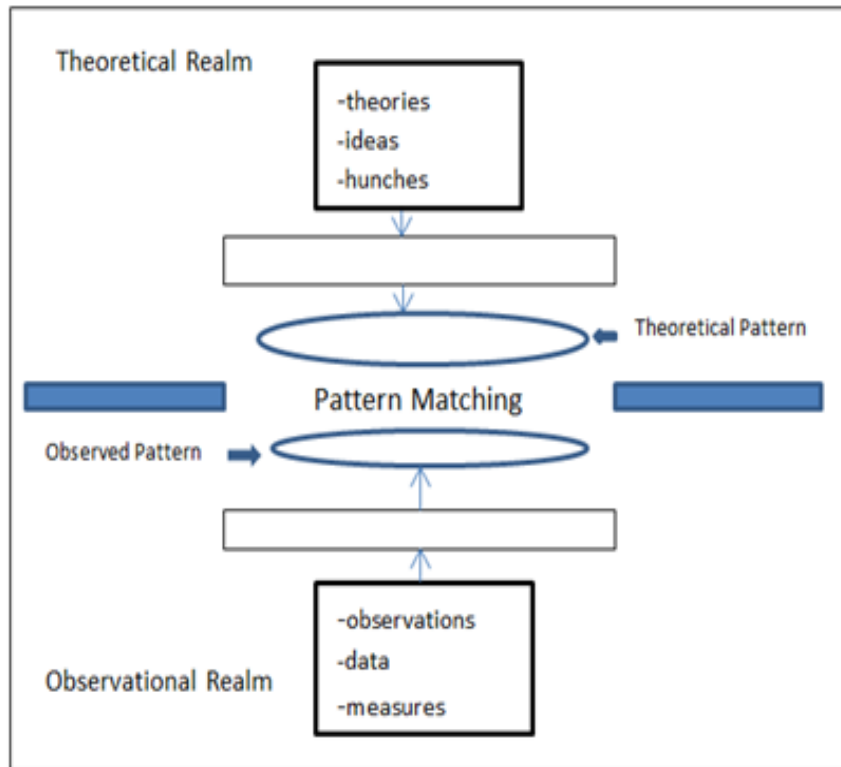
Time series analysis is used as a model to predict future values based on previously observed values and is a quantitative technique commonly employed in positivist research. This technique was considered inappropriate in these cases, as the study is not dealing with time-related data.

In qualitative research, pattern matching, the third of Yin's (2009) techniques is at the core of any attempt to conduct IPA within the context a case study. The "theoretical pattern" is an assumption or set of assumptions concerning expectations arising from the data. "Pattern matching involves an attempt to link two patterns where one is a theoretical pattern and the other is an observed or operational one" (Trochim 2006), see Figure 43.

The theory, as referred to by Yin (2009), might originate from a formal positivist, deductive tradition, or may be the ideas, constructs or "hunches" of the researcher in the case of inductive, qualitative research.

The lower part of Figure 43 indicates the cluster of observation, data and external sources including direct observation in the form of impressions, field notes, interview transcripts, as well as more formal objective measures if applicable.

Figure 43: Pattern Matching



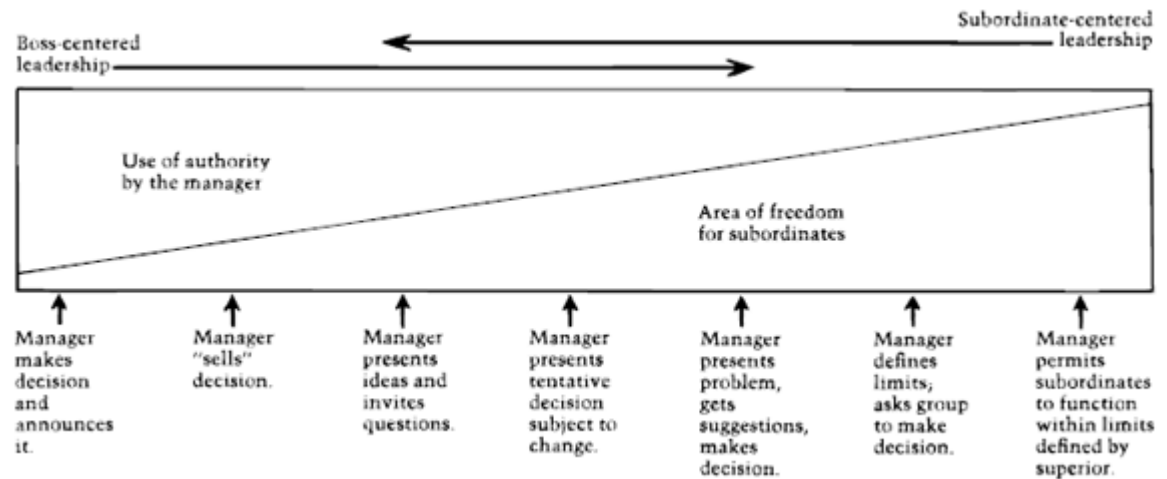
Source: Trochim (2000)

The task of conceptualisation involves the translation of these ideas into a coherent pattern as indicated at the centre of Figure 43. Accordingly, this study uses pattern matching as a technique to analyse the case studies. An example of theoretical and observational matching is that of the dominant role of the owner-manager as expressed in Figure 44 for example, at one end of the Tannenbaum and Schmidt leadership continuum theory (Tannenbaum and Schmidt 1958) and his attitude to the collective responsibilities of the board and director independence where there may be a range varying between total congruence to chaotic dissonance.

The fourth of the techniques advocated by Yin (2009), the logic model technique, is used in case study analysis when the case events are staged in repeated cause-effect sequences. This technique not applicable to this

study as it does not concern itself with byzantine chains of inter-related events.

Figure 44: Tannenbaum and Schmidt leadership continuum theory



Source: Harvard Business Review (1973)

The last of the techniques advocated by Yin (2009) is cross-case synthesis. In this study, both within-case and cross-case synthesis is used and word clusters are created to display the data from the individual cases according to a common structure. In qualitative analysis, the key common elements in the data are amalgamated into 'themes'. Themes can be common to all the cases or may vary across groups of cases depending on the nature of the data. According to Creswell, (2007), cross-case comparisons are especially useful for external validation of individual case study findings. Cruzes et al. (2014) state that,

"The process of synthesis entails organizing the relevant evidence extracted from the included sources and then finding some way of bringing it together. The way the evidence is organized depends to some extent on the type(s) and scope of the evidence, the method(s) employed and on the preferences of the researcher"(Cruzes et al. 2014, p.9).

Table 35 summarises the strategies and techniques used in data synthesis.

Table 35: Strategies and Techniques used in data synthesis

Strategies used	Techniques used
Reliance on conceptual model	Pattern matching
Examination of rival explanations	Explanation building
	Cross-case synthesis

Source: Author with reference to Abeysekera (2015)

Data Reduction, Data Display and Conclusions

According to Miles and Huberman (1994), data analysis comprises three elements of 1) data reduction, 2) data display and 3) drawing or verification of conclusions. Data reduction “sharpens” data (Miles and Huberman 1994, p.11) and brings disparate into focus by summarising, condensing, organising and discarding in order that final conclusions can be drawn and verified. In this study, data reduction is achieved through a detailed examination of the respondent’s answers and, through a forensic approach, to determine meaning from those answers. The objective is not merely to compare data to find out similarities or differences but rather gain an appreciation of the phenomenon of the contribution of corporate governance to risk and crisis management in small companies.

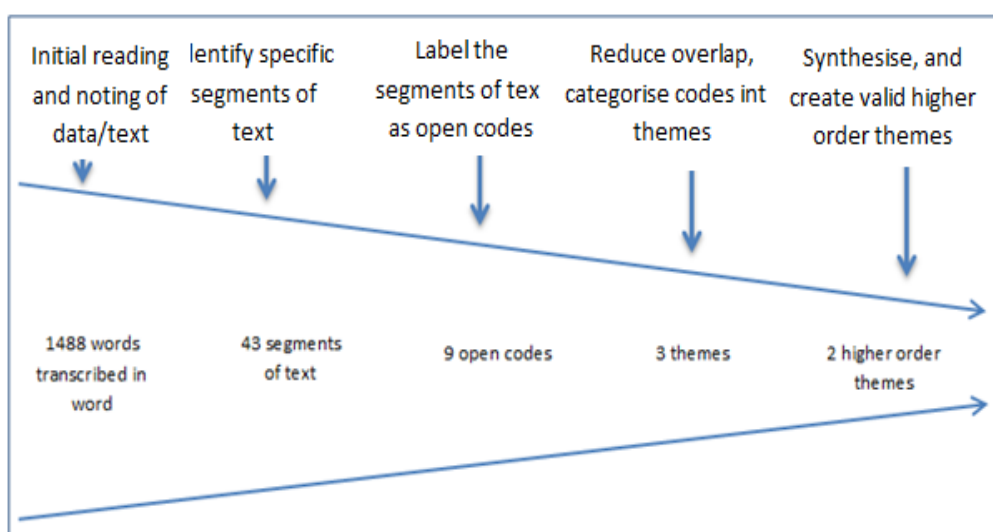
Data display involves organising and assembling data into summary diagrams or visual displays . Miles and Huberman (1994) state that data must be displayed in order that the agglomerated information enables conclusions to be drawn and, if required, subsequent action to be taken. The data in this study are predominantly qualitative although answers from the pre-interview questionnaire are shown on a spreadsheet. As such, the data display is structured using the two methods advocated by Miles and

Huberman, (1994) – firstly through matrices and secondly through networks using an assemblage of ‘nodes’ connected by line-links.

Finally, Miles and Huberman, (1994) aver that conclusion and verification are concerned with meaning and its implications. The researcher is therefore drawing out meaning and noting where, within the meaning, reside the commonalities, regularities, divergences, anomalies, patterns and explanations.

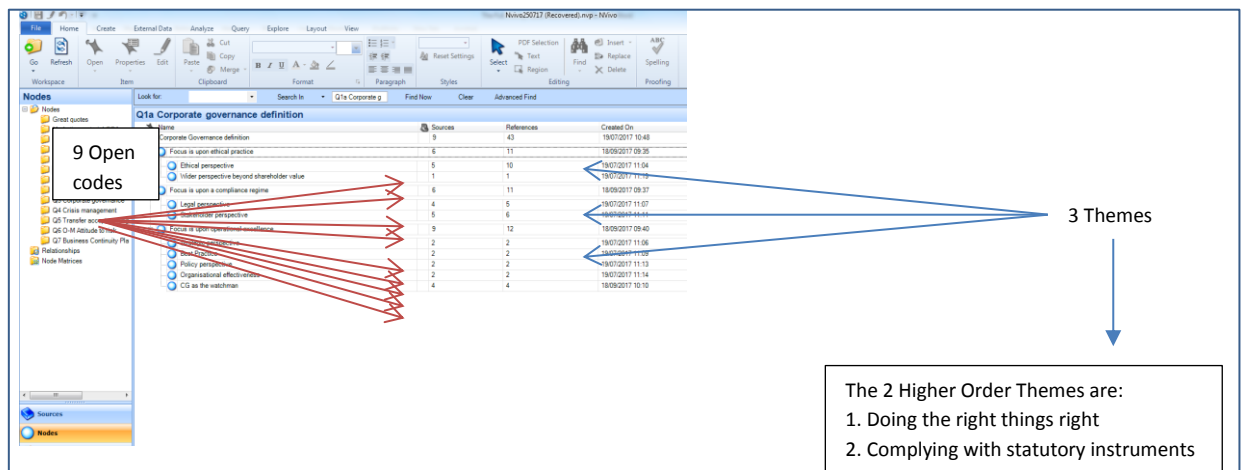
Accordingly, in this study, conclusions are made through recognition of patterns, the development of explanations and cross-case synthesis through the lens of the conceptual model. The process stages of data reduction are adapted from Cruzes et al. (2014), see Figures 45 and 46, using Q1a as an example.

Figure 45: Example of the process of IPA synthesis



Source: Author

Figure 46: Example of moving from open codes to themes



Source: Author with reference to Cruzes et al. (2014) and NVivo

Data analysis using NVivo 10

NVivo 10 qualitative research software, developed by QSR International based in Australia, assists researchers to manage, shape and understand the meaning of unstructured data irrespective of the form of the data which may include audio, video, documents and pictures. NVivo 10 is designed to ease the complex task of organising, analysing and sharing data, and acts as a common platform for a range of qualitative methods. It is in effect a series of interlinking cardboard boxes into which data is dropped for subsequent analysis. NVivo 10 uses a processual algorithm based upon a structured approach to the creation of cases and nodes into which data is housed.

In this study, four cases are created in NVivo 10 representing the four companies studied and the interview transcripts from each of the nine respondents, which form the principal data sources, are imported and set up as a sub-set within the “company box”.

The text of the nine interviews are then coded and allocated a particular node that describes the sentiment of a particular word, phrase sentence or paragraph. Open or Initial Coding allows the researcher to classify the interview data into meaningful categories or themes.

Whilst auto-coding is valuable in positivist research in which ranging questionnaires are used with large samples, manual coding is more common in qualitative research when there is a relatively small data set and the study requires detailed and in-depth analysis. The researcher using manual coding firstly identifies the themes based on transcripts and other sources and then creates “nodes” in NVivo 10. Each node has a title and a descriptor in order to ensure that the researcher then allocates relevant text, for example, to the appropriate nodes. For an example of this, see Figure 47. A hierarchy is created in which so-called “child nodes” feature in the analysis in this study where the transcript contains deeper meanings than that shown in the so-called “parent node”.

A code book of 14 A4 pages is created that outlines the location, name and description of each node together with the number of sources cited and the number of coding references. The code book is shown in Appendix 12.

Table 36: The extended process of analysis and synthesis.

Question Number	Initial reading and noting of data/text	Identify specific segments of text	Label the segments of text as open codes	Reduce overlap, categorise codes into themes	Synthesise and create valid higher order themes
1a		43	9	3	2
1b		98	26	6	2
2		124	37	5	3
3		233	32	7	3
4		118	22	5	3
5		112	23	6	3
6		77	19	4	3
7		46	6	3	2

Source: Author

The analysed data in NVivo 10 is synthesised in the thesis using IPA and following constructs developed by Cruzes et al. (2014). Table 36 uses the

structure, see Figure 47 to illustrate the extended process of analysis and synthesis.

Figure 47: Example of node properties and description

The image shows a 'Node Properties' dialog box with the following fields and values:

Field	Value
Name	Ethical perspective
Description	References CG as a behavioural matter related to ethics and morals
Nickname	
Hierarchical name	Nodes\\Q1a Corporate governance definition\\Corporate Governance definition\\Focus
Aggregate coding from child nodes	<input type="checkbox"/>
Color	None
Created On	19/07/2017 11:04
By	L
Modified On	06/11/2017 12:26
By	L

Buttons: Apply, OK, Cancel

Source: Author

Themes differ from codes in that they are phrases or sentences that identify the meaning of the data and are the product of coding that enables analytic reflection. Themes comprise ideas and portrayals within a context that can facilitate explanation of causal events, statements, and ethical positions derived from the participants' narratives. Through an iterative process, the researcher narrows down the initial themes to provide an overarching or Higher Order Theme.

This analysis enables themes to emerge from the sub-strata of the data such as the meanings arising from repetition of concepts; culturally defined shorthand, metaphors and analogies; shifts in emphasis; and the nuances of linguistics.

The analysis addresses not only what is present in data, but also what is missing.

The Higher Order Themes that emerge, see Table 37, in some instances, reflect wide divergence in the responses given by participants to interview questions.

Table 37: Higher order themes

Research Question	Higher Order Themes
1a	Doing the right things right Complying with statutory instruments
1b	Corporate Governance makes a positive contribution to success Corporate Governance adds limited value to a small company
2	Dominance of owner-manager and family members Moderating effect of outsiders Quality earnings with ethical practices
3	Risk is a key element of corporate governance Owner-manager's attitude to risk over-rides governance policies Strong influence of past events influences decision making
4	"Just do it" trumps safety first Operational crises are prioritised over strategic crises Post-crisis learning is of marginal interest
5	Risk identification is poorly understood Due diligence is a burdensome time waster A belief that insurance cover will meet our needs
6	A history of success precedes a mind-set of invincibility External impartial advice is valued Network membership is viewed as a great source of support
7	Planning for the worst is unstructured and haphazard Come what may, we will sort it out

Source: Author

Chapter 5-Introduction to Cases and Respondents

Overview of the chapter

This chapter introduces the four cases, referred to as Companies (COS) 1, 2, 3 and 4, and the respondent owner-managers' and directors' taking part in this study. The introduction to each case includes a description of the structure of the company, the board and associated governance procedures, the nature of the products and services that are offered together with financial and performance data. The findings from the preliminary questionnaire and the respective interviews conducted with the respondents from the four companies are contained in Chapter 6.

Introducing the Four Cases

Gaining access to directors is a key consideration in order to conduct business research and hence ensure the viability of the project. In this respect the author's position as a Fellow of the Institute of Directors proved to be of great value in getting beyond gatekeepers and arranging preliminary meetings with the companies that took place in both the pilot study and the main study.

The criteria applied to those companies invited to participate in the main study comprises, firstly, size - the company has to be within the UK Government's definition of a small company- between 10 and 49 employees. The second criteria relates to location in order to avoid long distance travel but more importantly that the companies reside within the broad area of the author's IoD network of Hampshire and Dorset. The third criteria is that the four companies would not be in similar or related spheres of business. This avoids suspicions of a conflict of interest, but also offers the opportunity to reflect upon cross-case similarities and differences that may arise as a

consequence of risk profiles. The final criteria is that each of the selected companies had been engaged in a self-defined crisis within the recent past, a period that the author determines as being 5 years.

All companies (and their owner-managers and directors) responding to the invitation to participate in this study are (and in one instance “were”), small businesses across a range of sectors so classified by Standard Industry Codes (The National Office of Statistics 2017), see Tables 38, 39 and 40

Table 38: Characteristics of participating companies

Ref. Code	Legal status	Sector	SIC Code/s	Business Type	No. of Directors	Directors interviewed
CO1	Private Ltd	Environmental	35110, 35210, 46770	Service and Manufacturing	4 (3 de-jure)	4
CO2	Private Ltd	Construction	38220, 81299	Service	3 de-jure	2
CO3	Private Ltd	Security	27900	Manufacturing	3 (2 de-jure)	2
CO4	Private Ltd dissolved	Marketing	7440, 7487	Service	1 de-jure	1

Source: Author

Table 39: Standard Industry Classification (SIC) of participating companies

SIC Classification No.	Industry Sector Description
35110	Production of electricity
35210	Manufacture of gas
46770	Wholesale of waste and scrap
38220	Treatment and disposal of hazardous
81229	Other building and industrial cleaning activities
27900	Manufacture of other electrical equipment
7440	Advertising
7487	Other business activities

Source: National Office of Statistics (2017)

From within the four cases, nine directors agree to be interviewed with one of the owner-manager directors declining to take part. In this instance the particular “owner-manager director” has minimal involvement in the running of the business, his role being that of engaged shareholder and little else.

In instances where a director is distant and disengaged from the business, as in the case of a spouse or family member where, despite legal commitment, involvement is at the margins, it is considered inappropriate to seek their participation in the research following advice from the operational directors.

In the case of “CO4”, a business that was sold whilst in administration on a pre-pack basis, the respondent was the sole director at the time of the distress sale. In the three other companies, in considering whether or not to seek interviews with operational managers, the advice, (for which, read instruction) given by the various managing directors in pre-interview visits to the company’s premises is twofold; firstly, that the managers are too busy running the day-to-day activities of the company and secondly that they are unable to offer meaningful insights into the subject of corporate governance and that any attempt to seek such data would lead to confusion and embarrassment.

Table 40 Details of respondents

Respondent	Position	Age	Details
CO1MD	Managing Director & Owner-Manager	50-55	The founder and owner-manager and managing director of the company and very much the dominant influence in the business with his forthright personality. He has an MBA and is a member of two professional bodies and has been a company director for 22 years.
CO1FD	Finance Director	40-45	He is the finance director of the business and has carried out that role for 14 years. He is CIMA qualified with a Batchelor's degree. He takes a somewhat cynical attitude to the role of the board in this company that he sees as little more than a rubber stamp.
CO1ComD	Commercial Director	45-50	He is the commercial director and has been in post for 3 years although has worked in the company for a number of years as a manager. He has neither higher education nor professional qualifications. He is street-wise and is focussed upon sales and marketing.
CO1NED	NED Chairman	55-60	He is a de-facto director and acts as chairman of the board. No information was forthcoming on qualifications however his experience relates to public sector organisations in the health sector. He is an eloquent man

			and a deep and reflective thinker and sees himself as a moderating foil to the owner- manager and as a sounding board to salaried directors.
CO2MD	Managing Director	40-45	He is the managing director although not a shareholder, and has been in post for 9 years. He has a first degree and is currently undertaking a part time MBA. He is Chartered Director and a Fellow of the Institute of Directors and proudly displays his various certificates on his office wall. He has considerable knowledge concerning corporate governance and regularly speaks at events on the topic of boards and their role in small companies.
CO2OPD	Operations Director	45-50	He is the operations director and has a diploma in leadership. He has moved to a director role from "the tools" and has very little knowledge of corporate governance as his focus is on "doing the job". He is keenly aware of risk from an operational perspective. His tattooed appearance and piercing gives him an aura of a site based manager and as such he readily relates to the operatives he manages.
CO3MD	Managing Director & Owner-Manager	55-60	He is the founder owner-manager of the business with 13 years as a director. He has an MBA and is a member of the Institute of Directors. He is something of a patrician and sees the business as an extended family enterprise
CO3FD	Finance Director	45-50	He is the de-facto finance director, a member of the Institute of Directors and an ACCA qualified accountant. He has 10 years of service as a de-jure director most of which has been as MD in a manufacturing company and is well versed in the principles of corporate governance.
CO4MD	Managing Director & Owner-Manager	70-75	This person was the MD, founder and owner-manager of a marketing and advertising agency based in Hampshire that went into liquidation after almost 40 years of trading. He is a charismatic and determined man and is a member of two professional organisations. He is passionate about business and at times can be assertive, demanding and direct.

Source: Author

Introduction to CO1 and structure of the company

CO1 operates in the environmental and energy sectors and was incorporated in October 1995. The company is a private limited company registered in England and Wales. In July 2017 the four serving de-jure directors ceased to be the individuals regarded as persons with significant control and were duly replaced by a holding company formed in February 2017 in which the Managing Director (MD) of CO1 is the sole person with significant control.

Under the leadership of the MD who is the owner-manager, there are three department heads responsible for respectively, operations, commercial activity including sales and marketing, and for finance and HR combined. The Operations Director is not registered at Companies House. Given the nature of the work undertaken by the company, health and safety compliance

is a critical function within the business and that manager, who is not a director occupies a position of importance and influence.

The company operates from three establishments with its head office being located within a small area of its main production site. The offices are single storey, compact and functional rather than grand, and reflect the “sleeves rolled up” culture of the company. At the time the research is conducted there 45 are people employed in the business.

The board and associated governance procedures

The company is directed and controlled by a board of four de-jure directors, two of whom are family members, one of which is the managing director. There is also a de-facto director who is not registered at Companies House and who fulfils the role of non-executive chairman.

The overall structure of the company is functional and comprises leadership from a managing director to whom a finance director, a commercial director and an operations director, who is not registered as a director at Companies House, report. The fourth registered director does not make a contribution to the management of the business and does not participate in this research. The finance director also acts as the company secretary.

The board meet monthly and in addition to registered directors, a non-registered director and operational managers are invited to attend all or some parts of the meeting. The board has a formal agenda and the company secretary keeps detailed minutes which are reviewed and signed by the chairman as a correct record of the affairs of the board. The agenda and minutes together with reports are sent out as a board pack in advance of the meeting. The minutes are brief and contain action points that reflect decisions taken. Two intriguing items on the MD’s report are entitled “Bright Ideas” and “Areas that keep me awake at night”.

The culture within the board meeting observed is polite, informal, technically focussed in large part and speakers are afforded uninterrupted time to make their point. There is nevertheless a level of deference to the owner-manager and a measure of second-guessing as to what his response will be to any given issue. In two instances there were outbursts of anger and frustration where the air was blue with obscenities as a result of unanticipated cost-overruns! The board, in common with many small companies, has an operational rather than a strategic focus, although during the observation this was moderated by a presentation of the annual accounts by the company's auditor.

The board does not conform to a recognised governance code such as the IOD's corporate governance guidance and principles or unlisted companies in the UK or BSI 13500. This is in contrast with a desire to comply with a range of external accreditations evidence of which is on display on the boardroom walls that are hung with certificates and approval letters from BSI and other validating organisations attesting to the achievement of industry standards and protocols.

Products and Services

CO1 offers three main products and services that the company specify as landscaping, recycling and the sale of energy derived from a solar farm. Its business model involves both retail sales and business to business sales to public utility companies, local authorities and a number of private and public companies through term contracts.

Financial and performance data

At the end of the financial year ending December 2016 the company posted a turnover of £11.546m (2015 - £10.243m) and profit before tax of £1.134m (2015 - £1.367m). The directors describe this in the report and accounts as

“another excellent year for the company”. In FYE 2015 there was an exceptional cost of sales item of £606,000 which refers to the costs involved in losses and reinstatement after a fire on a dockside when a woodpile awaiting export was the subject of spontaneous combustion due to improper stacking. The wood itself nor consequential loss and damage were not covered by insurance.

Net assets have increased from £7.118m in 2005 to £7.139 at the end of 2016 however the current ratio stands at 0.75 compared with 0.99 in the previous year suggesting increasing pressure on liquidity.

Summary of CO1

CO1 is a profitable business that lives out loud and proudly displays its muscularity. It operates in a rumbustious environment of a constant train of heavy goods vehicles belching diesel fumes, the clatter of noisy machinery and an atmosphere full of dust, grime and pungent aromas that dominate its major operational site.

The counterpoint to this highly industrialised setting is the calm and serenity of a large solar farm situated in an adjacent 38-acre site that supplies pollution free energy enough to service 60,000 homes. The land beneath the solar panels is used for grazing. This site was developed and operated by CO1 and was subsequently sold on in 2016 in order to raise working capital for other projects.

The owner-manager’s forceful personality finds its way into every nook and cranny of the enterprise and whilst he is a great asset to the business, his demise, for whatever reason, would leave a very large hole in the governance and management of the company.

The board is seen by non-owner directors as something of a formality and akin to a placebo. Although a number of sound governance practices are in place, the dominant over-riding voice related to decision-making at both strategic and operational levels is that of the owner-manager.

The company is in a relatively high risk sector and previous crises have led towards a gradual de-risking of the business as the price paid for its oversights has been considerable and as such those incidents and their associated memories constantly inform current policy.

Introduction to CO2 and structure of the company

CO2 has its base in the south of England and operates in a highly regulated and potentially hazardous sector of industry removing and disposing of asbestos and other volatile materials. Established in 1980, the company is a fully accredited asbestos removal contractor. The company states that it is “Committed to safety and corporate governance” and that, “our vision is to be the safest asbestos removal contractor in the UK.” By way of expanding on this statement, the keywords used in the company’s literature are “experienced, competent, and accredited”.

At the time of the research, spring 2017, the lynchpin of the business is the managing director who has been in post since 2008. He resigned his directorship in August 2017. The current directors at the time of writing include the operations director, who is a working director in the business, and the owner-manager director who has for many years been on the periphery of the enterprise and is involved with the day to day management of the business. The owner-manager’s wife is also a director and acts as company secretary but, like her spouse, does not work in the business at an operational level. Significant control resides within a holding company that in July 2017 underwent a name change. The directors of the holding company are the

owner-manager and his wife and the total shareholding of the operating company is held by the holding company.

The company operates from two buildings on an edge-of-town industrial estate. The premises are located within 50 metres of each other and are unpretentious and functional. In one of the buildings the company has invested in a staff gymnasium and such an act reflects the culture of the company that has staff welfare at its heart. The company often help staff with short term loans and is working on a project to offer personal finance education to colleagues. The company employs 35 people in operational and administrative roles.

The board and associated governance procedures

CO2 is directed and controlled by a board of four directors. It operates to high standards of corporate governance driven by the managing director who is a Chartered Director of the IOD and is currently undertaking an MBA. Certificates and accreditations adorn the wall of the MD's office and directors regularly engage in professional development activities. CO2 could be reasonably described as an exemplar concerning the application of corporate governance in small companies and operates to the IOD's Guidance and Principles for Corporate Governance in Unlisted Companies in the UK. The board does not however participate in any external evaluation of its governance standards but in fulfilling its duties, the board is guided by a written charter.

Board meetings take place on a monthly basis and feature a board pack sent out in advance containing minutes, agenda and director reports. Board reports are based upon a standard template. External consultants are invited to make presentations to the board on matters such as insurance and safety. Although the agenda contains detailed operational matters, adequate allowance is made to debate strategy, policy formulation, risk, compliance

and the external environment. Unlike CO1 where the researcher was privileged to observe a board meeting that permission was not granted in the case of CO2. The company did however provide copies of governance policies and practices that indicate the thorough and diligent approach taken. Specific policies comprise the Anti- Bribery and Bribery Risk Assessment policy, the Conflict of Interest policy, the Board meeting protocol and the Board Charter. These policies are, upon examination, relevant, appropriate and meaningful within the specific context of the business and provided support and substance to the twin governance roles of pilot and watchman with emphasis on the latter.

Products and Services

The core business activities take place in both domestic dwellings, commercial and industrial premises, on construction sites and in buildings undergoing refurbishment. In addition to the removal and disposal of dangerous substances the company also provides a specialist consulting service. The customer base comprises householders, landlords and tenants, local authorities, public utilities, construction firms and demolition companies.

Financial and performance data

The company submits abridged accounts to Companies House showing balance sheet only. Net assets for FYE 30 November 2015 stand at £713,663. The corresponding figure for the previous year was £385,020. Current assets are £1,100,609 with current liabilities at £673,999 giving a healthy current ratio of 1.63.

Summary of CO2

As a small company, the corporate governance standards operating in CO2 are high due in very large part to the beliefs and values of the MD who has,

since the interviews took place, resigned from CO2 in order to follow further opportunities.

It remains to be seen if his successor, if any, will continue similar policies related to corporate governance. Not only does CO2 function well at board level but its staff policies on training, staff welfare and staff education place it apart from many small companies. Consistent with its concern for people, the offices and work spaces are spacious and well-designed despite the somewhat bland exteriors. The introduction of a fitness suite adds a much appreciated benefit for the workforce.

CO2 operates in a highly regulated environment and its greatest threat to continuity is the loss of its government licence that enables it to operate. Accordingly, the delegated authority given to site operatives is such that a single transgression or a momentary lapse in protocol could lead to the most severe of outcomes. The company recognises this fragility and has moved from oppressive, close control and oversight to a policy of training, trust and de-centralised decision-making having recognised the downside of hygiene factors and adopted the benefits of motivators as expounded by Herzberg et al.(2017).

Introduction to CO3 and structure of the company

CO3 is situated on a modern business park in the south of England and is surrounded by both retail outlets and other light manufacturing businesses many of which are in high tech industries. The company also has an office in France. The current owner-manager acquired the business from a large investment company following a management buy-out in 1996 and in 2005 owned 100% of the shares. The owner-manager proudly displays his bachelor's degree and his MBA certificates on the wall of his office together with a number of quality standard accreditations and trade body memberships.

The owner-manager talks of the company in terms of a family and he is keenly aware of his responsibilities to ensure colleagues, as a consequence of working at CO3, are able to meet their financial and family obligations. The company engages in charitable work and whilst the directors acknowledge that the company is in business to optimise profits they recognise it must operate within a robust ethical context. There is however a view that ethical behaviour set in a global business environment may have differing interpretations and nuances and as such a contingent approach is needed albeit remaining compliant with UK laws such as the Bribery Act 2010.

The company places great emphasis on technical and skills training and the owner-manager is actively involved with trade bodies in the promotion of high standards within the sector. Since its inception in 1982, 30 directors have been appointed to serve in the company, 27 of whom have resigned. The remaining three are the owner-manager, his spouse and a corporate director in the form of a wholly-owned holding company that qualifies as the person with significant control as it owns more than 75% of the shares.

The company employs 25 people but this varies according to circumstances. In addition to employed staff, the company uses a number of self-employed agents across the globe. The finance director is not registered at Companies House and functions as a de-facto director acting in every respect as a de-jure director and is the nominated deputy in the absence of the managing director. The organogram is based around a functional structure with departmental managers responsible for delivering the plan and its objectives.

Research and Development plays an important part in the business and the company's membership of specialist quality standards institutions features in its marketing and sales collateral. The company has been accorded Beacon Company status for its high standard of leadership.

The board and associated governance procedures

The company does not adhere to a recognised code of corporate governance although board meetings do take place on a regular basis. An agenda and director reports are distributed prior to meetings and formal minutes are maintained. Board meetings tend towards an operational focus. There is nevertheless considerable reliance placed upon strategic advice from outsiders in the form of the company accountants and lawyers who acts as quasi non-executive directors and in whom the owner-manager places considerable faith.

Products and Services

The company designs and manufactures advanced access control and security systems and sells its products through a range of distributors and agents, in addition to direct sales, to construction companies as OEM equipment or for upgrades and retro-fitting. Since its formation, the company claims to have installed over 100,000 systems worldwide. The systems are widely used in government, education, financial services, and commercial premises. The systems are also installed in the health, leisure, public utilities and transport sectors. The company promotes the integrated capabilities of its systems and articulates the value proposition as that of “peace of mind” combined with ease of use. The company’s website features the Union Flag and lays great store in its British heritage.

Financial and performance data

The company submits abridged accounts to Companies House showing balance sheet only which at 30 April 2017 confirms fixed assets at £1,013,068 of which £858,964 represents intangible assets that reflect the nature of the business. Net assets are £867,969, some £316,659 greater than the

previous year. Current assets are £2,455,727 with current liabilities at £1,587,758 giving a healthy current ratio of 1.56.

Summary of CO3

CO3 operates in a specialist niche market that has a focus on advanced integrated technology but serves a customer base described by the FD as comprising mainly “hairy arsed builders”, a reference to what he sees as relatively unsophisticated buyers. CO3 operates with a somewhat patrician style of management that combines a measure of refinement and distance with a genuine culture of caring for colleagues and customers alike. Personal relationships feature strongly in the way that the company does business and due to the parts of the world in which trading takes place there are tensions related to the graduations as to what may be acceptable in country A that is not acceptable in the UK.

The board is in effect an operational management team as there is only one de-jure director working within the business. There is no formal corporate governance process in place nor does the board operate to a code for unlisted companies. Board processes are simple but adequate for the size of the company.

The board meetings do not feature a specific item on the agenda related to risk although the question of risk is discussed largely in the context of finance. The company does however have a risk register that considers a range of issues, their likelihood and impact. These range from the consequences of a sales executive taking maternity leave to the impact of moving from fibre broadband to low altitude satellite provision.

The owner-manager relates to the proverb “once bitten; twice shy” and accordingly his trust level has been severely tested in recent years through an incident of internal fraud by a senior manager. Although the incident was

destabilising, the owner-manager and the FD both acknowledge that they have adapted little as a consequence suggesting a rather laissez-faire attitude to risk if this instance is a microcosm of a wider issue.

Introduction to CO4 and structure of the company

CO4, a “full-service” advertising and marketing agency based in the south of England, was dissolved in July of 2012. The company was founded in 1980 and operated from a small first floor office in a town centre location. The company published its last accounts up to financial year ending August 2010 and its final annual return in December 2010. Prior to its demise, CO4 was based in a detached ground floor office on a small business park with a high profile frontage adjacent to a busy dual carriageway and employed 22 people. CO4 worked closely with a number of freelance designers and sub-contract specialist printers, exhibition stand designers and event management companies.

The company enjoyed stellar growth during the 1990’s and counted as customers a number of high profile public companies in the UK and overseas but in its quest for business growth in the early years of the 21st century over-extended credit to companies that foundered and hence CO4 could not survive. In the early years of the current century, CO4 acquired an exhibition company based near the home of the owner-manager. This move into exhibition stand manufacture was, according to the owner-manager, a contributory factor leading to the ultimate failure of CO4 with allegations of a director engaged in embezzlement resulting in his dismissal.

The company was based around a functional management structure with key account executives responsible for clusters of customers and business development activities. The owner-manager dominated every aspect of the business and did not suffer under-performance easily. Departmental heads were responsible for public relations business, media advertising and

marketing campaigns with a general factotum taking charge of back office functions. The owner-manager took great interest in the financial management of the company and was in effective control of that function within the business. He would regularly work late on the preparation of invoices, statements and management accounts.

The shareholding of the company as of the last Annual Return submitted in January 2011 shows the authorised capital of the company as being 11,000 ordinary shares and 200,000 preference shares. All the ordinary shares are in the ownership of a company under the sole control of the owner-manager of CO4 with the preference shares owned by a family holding company of which the owner-manager once again controls.

The board and associated governance procedures

The board comprised the owner-manager, and at one stage his ex-spouse who resigned in 2001. There were two salaried directors both of whom resigned in 1993 and a non-executive director who was appointed in 1997 and resigned in November 2004. Accordingly, the owner-manager was the sole director and, upon his admission, corporate governance was not high on his agenda.

Products and Services

The company provided a “one-stop” range of marketing services that included design, print, website design and management, photography, marketing consultancy, public relations, media planning and advertising campaigns, exhibition design and stand construction (through a wholly owned associated business).

The company won a number of long-term contracts with large corporates but maintained its focus on small to medium sized enterprises. Specialist areas

of expertise included the leisure sector, motoring, defence, residential property and technology.

Financial and performance data

The last published financial data relates to August 2007 with the company showing Fixed Assets of £170,000, Current Assets of £77,325 and Current Liabilities of £50,000. Creditors over one year were £200,000 resulting in negative balance of (£2,675) compared with £107,690 the previous year.

Summary of CO4

CO4 is a case of a highly-motivated owner-manager who now recognises that his success over a period of many years led him to believe that he was invincible. He accepts that his hubristic and arrogant attitudes brought about his personal nemesis in addition to the downfall of his business.

During the time the business was operating, the owner-manager lived something of a charmed life and was persuaded that this good fortune would continue *ad infinitum*. He confesses to a belief that he thought that he “could walk on water”, a view borne out of, upon his own admission, a complete disregard of any substantial risk management policies when the business was solvent and trading.

The consequences of the failure of the business is impacting upon his private life with a distress sale of a large residential property and a subsequent reduction in his personal assets that in turn compromises his ability to pass on a significant estate to his son and daughter. His reluctance to delegate, the owner-manager acknowledges, was a contributory factor in the ultimate demise of the business combined with a culture that did not learn from mistakes due to being too busy doing or selling.

The lack of reflection and collective strategic thinking is considered by the owner–manager as a key governance failure and when the crisis hit, the resilience level of the business was inadequate to cope with the oncoming financial tsunami resulting from invoices that he knew the debtors would never settle.

Chapter 6-Analysis and Findings

Overview of the chapter

The chapter begins by briefly re-stating the research context; that of small UK companies, and then goes on to present the findings concerning corporate governance and its contribution to risk and crisis management.

In the first instance, the responses to a pre-interview exploratory questionnaire are analysed prior to further analysis of the transcriptions of nine semi-structured interviews.

The chapter then presents the findings of the study using two strategies for analysis and synthesis and four analytical techniques following Yin (2009). The research questions are answered at the conclusion of this chapter with a discussion of the findings and conclusions appearing in Chapter 7.

Introduction

UK-based small companies are, in common with much of the rest of the world, a significant and distinct element within the national economy (Hiebl 2012; Hong et al. 2012; Yiannaki 2012; McNulty et al. 2013; Verbano and Venturini 2013; Vrečko and Širec 2013; Farooq 2014).

However, a key differentiator between small companies themselves, and between small companies and their larger counterparts is that of the owners' socio-emotional identification with the business and his or hers' associated values (Lobonțiu and Lobonțiu 2014).

Furthermore, Durst and Brunhold (2017) add that control, the exercise of almost unlimited power and the last word in decision-making are likewise key features of the owner-manager, hence, they claim, small companies, "cannot be understood without reference to the owner-manager,." (Durst and Brunold 2017, p.203).

A widely accepted feature of small companies relates to their fragility and their limited capacity to withstand even a minor crisis. Accordingly, the failure rate and collapse of such entities is high. The literature related to risk and crisis management in small companies (Drummond and Chell 1994; Smallman 1996a; Mitroff and Anagnos 2000; Herbane 2010; Hong et al. 2012; Mahzan and Yan 2014; Parnell 2014; Doern 2016) portrays a multiplicity of perturbations that may pose a threat to the long-term survival and growth of an already friable entity (Mette 2014).

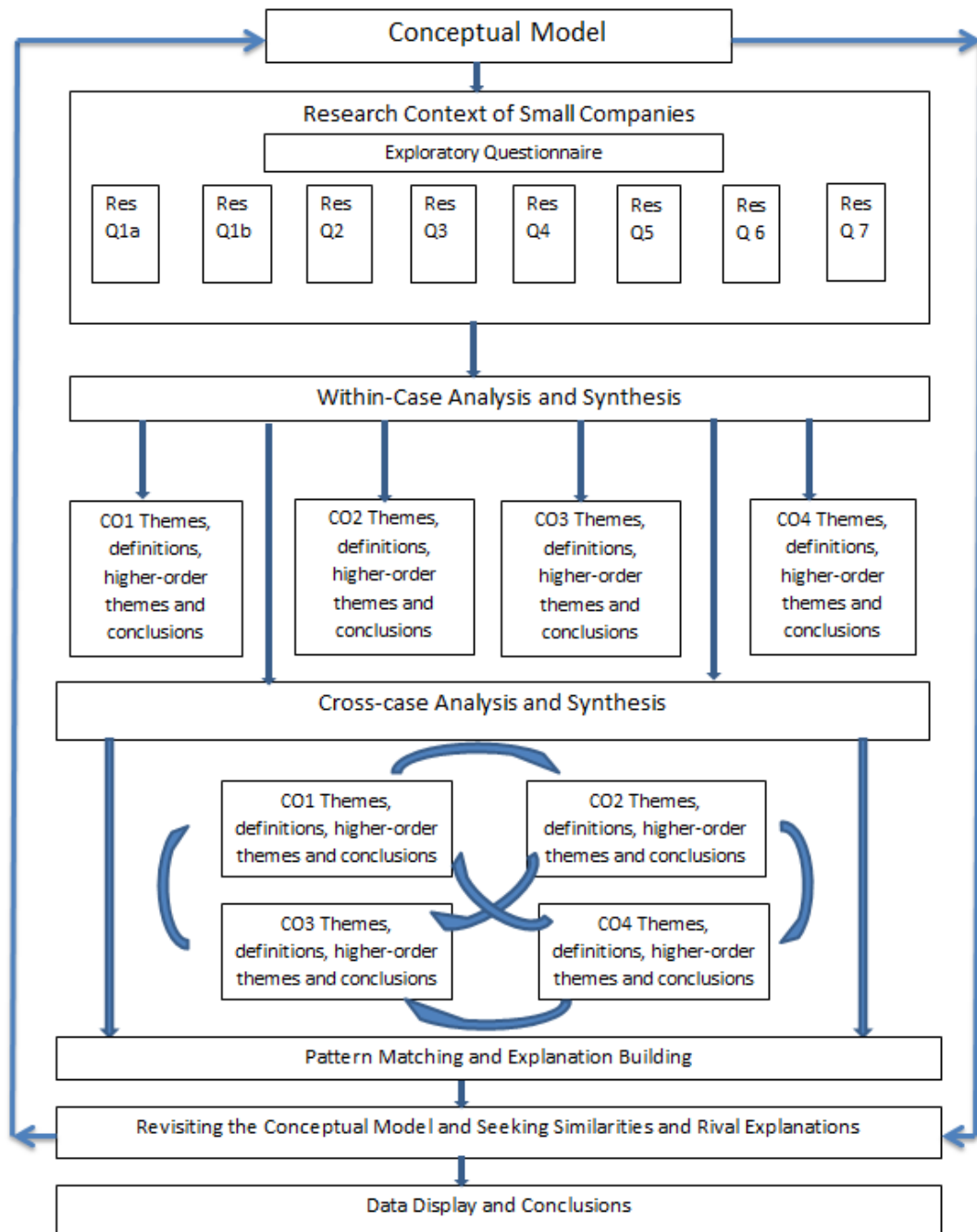
It is against this backdrop of vulnerability, resource scarcity and the limited resilience of small companies that this study seeks to explore the relationship between the manner in which the four small companies featured in the case studies are governed and the extent to which corporate governance contributes to risk and crisis management.

The roadmap for this chapter, see Figure 48, references the conceptual model as its driver, but in so doing it offers up the opportunity for review and revision according to the findings of the research.

The remainder of the chapter is structured into five sections as follows:

1. Within and cross-case analysis and findings from the exploratory questionnaire
2. Within and cross-case analysis and findings from the interviews
3. Pattern matching and explanation building
4. Re-visiting the conceptual model to seek similarities and rival explanations
5. Data display and conclusions

Figure 48: Roadmap of Chapter 6



Source: Author

The responses to the statements in the preliminary questionnaire are of value not merely intrinsically, but also in that they prompt some nuanced changes to the footnotes in the semi-structured interviews that facilitated

supplementary challenges and probing on the part of the interviewer. The responses demonstrate the extent to which corporate governance, risk and crisis management are largely matters of which directors know little and as such the interview questions are adjusted accordingly.

Within–case analysis and findings from the exploratory questionnaire

The statements and responses are grouped into four sections:

1. Corporate Governance
2. Risk Management
3. Crisis management
4. Respondent’s beliefs and attitudes concerning crises

A complete list of the statements is contained in Appendix 9.

Categorisation of the responses ranges from “wide agreement positive”, to “wide agreement negative”, and “no overall consensus”. Each of those terms is defined, see Table 41.

Table 41: Categories and definitions of analysis of questionnaire

Description of response category	Definition of response category
Wide agreement positive	The collective responses are either “strongly agree” or “agree” and represent a positive view regarding a statement that would be considered good practice in corporate governance according to IOD “Principles” and The Non-Executive Directors Association.
Wide agreement negative	The collective responses are either “strongly disagree” or “disagree” and represent a negative view regarding a statement that would be considered good practice in corporate governance according to IOD “Principles” and The Non-Executive Directors Association.
No overall consensus	The collective responses reflect a lack of consensus and suggest dissonant thinking amongst respondents

Source: Author

Responses from directors of CO1

1. Corporate governance as understood by respondents in CO1

The board of CO1 comprises five directors one of whom is an absentee director and hence four directors completed the questionnaire including the non-executive interim chairman.

Of the nineteen statements related to their perceptions and understanding of the nature of corporate governance practiced in their company the directors are in “wide agreement positive” with nine of the statements. An example of such is statement 17 that says, *“The board regularly reviews the external environment and business context”*, a practice that represents a positive tenet of effective corporate governance, with which two of the directors “strongly agree” and the further two “agree”. Hence, in response to this statement the respondents have “wide positive agreement”.

Other areas in which the respondents in CO1 have “wide agreement positive” are statements 4,5,6,7,8,13,14,17 and 18 details of which are contained in Appendix 9.

In contrast to the foregoing responses, statements 10 and 11 show “wide agreement negative” where respondents either “strongly disagree” or “disagree” with a statement and accordingly these responses suggest a weakness in the governance processes of the company. The two such statements are:

Statement 10 - *Directors declare any conflict of interest at the start of each board meeting*

Statement 11 - *The board conducts regular director and board evaluations*

The responses showing either “wide agreement positive” or “wide agreement negative” suggest a measure of consensus within the board. The responses “wide agreement positive” and “wide agreement negative” contain both

objective and subjective positions adopted by the respondents. In the case of statements 5, 7, 8, 11, 13 and 17 for example, there is an opportunity to self-define terms such as “regular”, “range” “appropriate” and “sufficient”. In statements 10 and 14 however, the response is limited to either “true or false” in a positivist sense – there either *is* or *is not* an NED on the board.

Responses to statements 1,2,3,9,12,15,16 and 19 reveal “no overall consensus” amongst the respondents and with regard to statement 19, relating to the use of a company secretary, each of the four respondents select a different option.

2. Risk management as understood by respondents in CO1

Respondents are asked to consider 29 statements relating to risk across a wide range of issues from risk policy as a sub-set of corporate governance to the detailed assessment and management of risk. Of the 29 statements, the directors responding express “wide agreement positive” to 6, “wide agreement negative” to one and “no overall consensus” to 22.

Respondents are in “wide agreement positive” with the following statements: 26, 34, 35, 36, 41 and 43.

Only statement 21 - *There is a specific board committee that deals with risk*, shows “wide agreement negative” and refers to the presence of a board committee tasked with examining risk and its implications for management. This “true or false” statement elicits responses that show a measure of consistency. This is in contrast with other similar “true or false” statements such as 22 and 25 that state - *The board has established a risk management policy* and *risk is a standard item on the board agenda*, both of which show no overall consensus.

The remainder of the responses to the statements regarding risk show “no overall consensus” and responses to seven of the statements show that either 100% or 75% of the directors “neither agreed nor disagreed” with the statement. A subsequent verbal question clarifies that such a response

equates to a “do not know” rather than an expression of implied disinterest. A poignant example of “no overall consensus” can be seen in the responses to statement 20 - “*The board has established a risk oversight policy*” - which seeks to explore a fundamental policy issue. The response to this statement was “agree” from two directors and “neither agree nor disagree” by two others.

The Non-Executive Chairman of the board, in an additional comment made at the end of the questionnaire, offers a personal view concerning risk management policy, stating that,

“I have not been made aware of the risk strategy adopted by [the company]. However, business risk is debated at every board meeting and runs through the thread of every discussion”.

Crisis management as understood by respondents in CO1

Of the seven statements in this particular section, there is no aggregated responses that could be considered as “wide agreement positive”. The responses reflect “no overall consensus” between the directors across all statements related to crisis management with many responses neither agreeing nor disagreeing with the statement thereby perhaps suggesting something of a vacuum in policy, procedures and scenario planning.

However, documents collected as part of this study include what is referred to as “CO1’s disaster recovery plan” with a stated objective as being,

“To ensure that a suitable plan is in place to minimise the cost incurred and time taken to recover from an incident giving rise to an interruption of the normal business operations of the Company”.

The 12-page document, issue 006, includes sections on an initial response to the crisis, a recovery plan, actions to be taken and a number of contact lists. As a result of the responses to statement 61, it could be reasonably

concluded that there is limited awareness of the “disaster recovery plan” amongst directors.

3. Beliefs concerning crisis management by respondents in CO1

The final grouping of statements seeks to discover respondent attitudes and beliefs concerning crises. The responses that reflect an appreciation and a deep understanding of the nature of organisational crises, based upon the work of Mitroff and Anagnos (2000), are those found in responses that either “disagree” or “strongly disagree” – which are then aggregated as “wide agreement positive”. For example, if a respondent agrees with the statement that “*Crises only happen to others. We are pretty invulnerable*” this would suggest an attitude of denial and invincibility and the adoption of what may be thought of as the Cassandra syndrome which occurs when valid warnings or concerns are dismissed or disbelieved leading to a failure to recognise the need to plan for the unexpected and thereby neglect a basic tenet of corporate governance.

Conversely if the respondent disagrees with the statement it demonstrates recognition of the potential risk and is accordingly categorised within “wide agreement positive”. The statements are as follows: Statement 53, 54, 55, 56, 57, 58 and 59.

The responses to these statements concerning attitudes towards the likelihood and impact of a crisis both illuminate and inform our understanding of the board’s attitude towards the allocation scarce resources towards crisis management.

The responses to statements 53-59, other than statement 54, point towards board coherence regarding attitudes and beliefs relating to crises.

It may of course be argued that a congruence of thinking suggests a “group-think” culture within the board or conversely, that the perceptions within the boardroom related to crises are grounded in a reality that is not reflective of the common afflictions of “Denial, Disavowal, Idealization, Grandiosity,

Projection, Intellectualization and Compartmentalisation” postulated by Mitroff and Anagnos (2000, p.47) from which statements 53-59 respectively are derived.

Responses from directors of CO2

1. Corporate governance as understood by respondents in CO2

The board of CO2 comprises four de jure directors one of whom is the owner-manager who is in nearly all respects an absentee director. The owner-manager’s wife is also a director and acts as company secretary. Like her spouse, she too is not an active and regular participant in the day to day operations of the company.

The respondents completing the questionnaire are the Managing Director and the Operations Director. Of the 19 statements concerning corporate governance in the company there is “wide agreement positive” to 12 of the statements relating to the governance of the business.

Differences in perception regarding statements that may be considered as being matters of fact rather than matters of opinion, other than statement 11 which allows interpretation of the term “regular”, can be observed in the responses to statements 10, 11, 15, 18 and 19.

It is perhaps to be expected that with two directors engaged in the operational leadership of the business their responses might contain fewer dissimilarities than those of a larger board. Nevertheless, responses to these five statements (26%) show “no overall consensus” despite a very close working relationship existing between the two directors involved in the operation of the business.

The responses to statement 19 suggest a gap in governance awareness in that one respondent strongly agrees with the statement that “*The board uses the services of a company secretary*” (who happens to be a fellow director) whilst the other respondent strongly disagrees with the statement.

Responses to statement 14 *The board comprises one or more non-executive directors* and statement 16 *There is a family governance mechanism (if applicable)* show “wide agreement negative”, however given that there are four directors in the company, two of whom are not functionaries within the business, the perception of the operational directors could be interpreted as acceptance that the owner-manager and his wife are acting in the roles of “executive” directors.

Responses to statement 16 are qualified in a later conversation with one of the two executive directors who states that the family governance mechanism exists in an informal setting rather than a prescriptive family governance charter.

2. Risk management as understood by respondents in CO2

Respondents show “wide agreement positive” in 20 of the 29 statements in this section of the questionnaire. (This compares with a little over 20% in the remaining three companies.) There are no areas of “wide agreement negative”. On what may be considered as a matter of fact, there is however “no overall consensus” regarding statement 21 which reads, *“There is a specific board committee that deals with risk,”* with one respondent expressing “strongly agree”, the other expressing the opposite view of “strongly disagree”. In such an instance there either “*is*” or “*is not*” such a committee in existence and hence the variance in perception is perplexing.

Given the high risk nature of the company’s business activity and the board’s focus on corporate governance, the responses to statements 32, 33 and 34 may be considered as counter-intuitive, although in the subsequent interviews the respondent’s comments differed from those shown in the questionnaire.

From a company such as CO2, the responses to statement 34 do not appear to be consistent with the overall demeanour of the directors and their slavish adherence to safety matters. Equally, the neutral response given to

statement 40 concerning insurance is inconsistent with the high standards adopted by the board and may reflect the division of work load amongst the directors and a well-intentioned, albeit possibly misplaced, desire not to load pressure on colleagues needlessly. Likewise, the differing views as to the engagement and input from managers should be a matter of concern as can be seen in statement 39.

CO2 is in many ways an exemplar of sound corporate governance in a small company but some of the responses to statements 32, 33, 34, 39 and 40 in this section of the research questionnaire have exposed gaps in the processes related to risk.

Some months after this research was conducted, as has been mentioned earlier, the Managing Director resigned, and accordingly a great deal of expertise and knowledge regarding corporate governance and risk management departed the business. Without the effective retention and application of his knowledge - "*sophia*" -and associated expertise - "*phronesis*"- or practical wisdom - the company is now facing a crisis that leaves it at considerable risk in the short to medium term as a consequence of his departure, a hole that, for the company, will be difficult to fill having lost the protection of the Shield of Achilles.

3. Crisis management as understood by respondents in CO2

Responses to statements related to crisis management planning show "wide agreement positive" in three of the seven statements in this section. They are statements 49, 61 and 62.

Whilst the directors of CO2 claim to use a framework upon which to base its crisis management plan, there no common understanding as to whether the company has adopted a recognised crisis management standard that is subject to external audit and verification.

There is "no overall consensus" related to the remaining four statements, 50, 51, 52 and 60.

The responses to statement 61 appear to be consistent with information contained within incidental documentary evidence collected as part of this study. One such document is entitled “*Business Continuity Plan*” (BCP) and is dated four months prior to the completion of the questionnaires. The opening page of the plan states,

“Organisations that have a business continuity capability are far more likely to survive the effects of a major incident than those that do not.”

There is, however, no mention of a target for Maximum Time Outage (MTO) in the aforementioned Business Continuity Plan. This objective is a critical element within a BCP and as such the plan requires amending.

4. Beliefs concerning crisis management by respondents in CO2

Of the seven statements concerning the beliefs of the respondents from CO2, the Operations Director chooses “neither agree nor disagree” with each statement, whereas the Managing Director takes a very different view in which the MD “strongly disagrees” with statements 53, 55, 57, 58 and 59 and accordingly his views largely accord with a position that represents the foundations of crisis preparedness.

Responses from directors of CO3

1. Corporate governance as understood by respondents in CO3

The respondents in CO3 are in “wide agreement positive” with seven of the nineteen statements regarding corporate governance and are in “wide agreement negative” with six of the 19 statements. Those seven “wide agreement positive” are statements 5, 7, 8, 9, 13, 14 and 17.

With regard to the “wide agreement negative”, the respondents acknowledge that the board neither operates to a recognised code nor does it have a board charter to specify its terms of reference. There is “wide agreement negative” in statements 2, 3, 10, 11, 15 and 18.

The responses to statements 10, 11, 15 and 18, indicate “wide agreement negative” in that the board does not have processes in place for such as a conflict of interest declaration, board evaluation, induction training and an auditor selection policy. On a more fundamental level concerning the role of the board in terms of the Companies Act 2006, section 172 which requires the board to focus upon the long-term success of the company, both respondents “neither agree nor disagree” with statement 6 - “*The board largely focusses upon the long term success of the company*”. This lack of emphasis upon the long term success of the enterprise is frequently mentioned in the literature relating to corporate governance in small companies (Abor and Adjasi 2007; Clarke and Klettner 2009; Durst and Henschel 2014; Crossan et al. 2015). This underlines the view held by researchers (Drummond and Chell 1994; Budge et al. 2008a; Falkner and Hiebl 2015; Brustbauer 2016; Doern 2016) that short-term and operational imperatives supersede and over-ride the consideration, development and implementation of medium to long-term strategies.

The remaining five responses to statements 1, 4, 12, 16 and 19 show no overall consensus.

The “wide agreement positive” response to statement 14 namely that, “*The board comprises one or more non-executive directors*”, would seem to be made on the basis of the inclusion of the wife of the owner-manager as an NED. Whilst she is a de jure director of the company being registered at Companies House, she has negligible involvement in the formal directorial processes of the company. External advisors do however act in the capacity of quasi-NEDs and would appear to make valued contributions and hence they may be also viewed as occupying the role of a NED.

2. Risk management as understood by respondents in CO3

The risks faced by CO3 differ from the risks faced by CO2 in particular. In addition to normal commercial risks, CO2 is faced with potentially serious environmental hazard risk issues, Health and Safety matters and compliance

inspections by government regulatory agencies. Such risks are not viewed as critically by CO3 as evidenced by the fact that in only 5 of the 29 statements in this section is there “wide agreement positive”.

The respondents were in “wide agreement negative” relating to statements 24, 25, 29, 32, 38, 39 and 43.

Both respondents selected the option “neither agree nor disagree” with the statement that “*The board has established a risk management policy*”. A risk management policy document is the key driver that establishes the entire company-wide assessment and managerial responses to risk in all its guises.

As such, CO3 has not laid down the foundations of effective risk management and it may be argued that it is developing policy as events dictate based upon reactivity rather than a pro-active stance.

3. Crisis management as understood by respondents in CO3

The responses to crisis management have a predominantly negative aura with four of the seven statements being “wide agreement negative”, and the remainder being “no overall consensus”. Of the responses to these seven statements there were none indicating either “strongly agree” or “agree”.

Although the risks that may precipitate a crisis in CO3 do not position it as a business beset by potential threats, there are nevertheless significant gaps in both the policy and operational areas of the business that could lead to the conclusion that the company is crisis prone and accordingly, urgent action should be taken by the board to deal with this.

4. Beliefs concerning crisis management by respondents in CO3

The respondents in CO3 are united in their approach to thinking about the dynamics of crises and their beliefs concerning the attitudes towards them as articulated by Mitroff and Anagnos (2000).

The “wide agreement positive” suggests that the directors appreciate the nature of crises that does not however align with the stance taken on crisis management policies and practices.

One response only selects “neither agree nor disagree” to statement 58 which may reflect an ambivalent attitude of mind that Mitroff and Anagnos (2000) refer to as “Intellectualisation” where an individual may rationalise a view concerning the low likelihood of a crisis occurring as a reason for not engaging with crisis management planning.

Responses from director of CO4

1. Corporate governance as understood by respondent in CO4

The responses to the statements from the one former director of CO4 are made in a context that differs from those of the other companies involved in this study and as the business no longer exists they are framed in the past tense rather than the present.

The responses are the views and perceptions of one individual who was the owner-manager and sole director of the company in the years prior to its demise. Although in this instance he represents a universe of one, this situation is not unusual within the small company sector where the values, attitudes and beliefs of the owner-manager tend to be paramount. Whilst the company was trading there were, over a period of time, a number of both salaried de jure and de facto directors whose perceptions of the corporate governance as practiced within the company have not been part of this study.

Of the 19 statements concerning corporate governance, the respondent is in “wide agreement positive” with 14. Only one response is that of “neither agree nor disagree”. However, three of the “wide agreement negative” responses, statements 1, 2 and 6, it could be argued, relate to a failure of corporate governance practice at a fundamental level,

Whilst it is impossible to speculate, the responses to these three statements are such that the answer to the “What if the governance had been effective” question is left hanging. The intriguing issue concerning the responses from the former MD and owner-manager of CO4 is that they indicate a belief that corporate governance as practiced is of a high standard in many areas. Yet in spite of this perception, the company failed.

2. Risk management as understood by respondent in CO4

Nineteen of the twenty nine of the responses to statements concerning risk management in CO4 are categorised as “wide agreement negative” with six show “wide agreement positive”. The remaining four statements indicate “no overall consensus”.

There are examples of “wide agreement negative” that could be viewed as indicators of both weak policy and weak practice. These relate to the lack of board oversight of risk, the absence of a risk committee, the deficiency of policy relating to risk management, weak record keeping, no whistle-blower policy and a failure to include risk as a board agenda item. The six responses that are in “wide agreement positive” are statements 26 and 34.

In the light of the company’s demise and the reasons for its demise, these responses would appear to diverge from the reality of the life situation. If, for example, the board was properly focussed upon risks that could have compromised its liquidity and appreciated the potential consequences of over-extending credit to new clients, why were appropriate corrective policies not enacted and why were risks not mitigated? Likewise, what was the role of the external risk consultant and was the advice given acted upon?

This apparent disconnect between policy and practice that is particularly evident in CO4 may be due in part to socially acceptable responses and confirmation bias as during the semi-structured interview with the

respondent, an admission was made that corporate governance was a concept largely unfamiliar to him.

The respondent chose to “neither agree nor disagree” with statements 47 and 48 which relate to the culture of the organisation. This ambivalence may offer an insight relating to the culture and values in the company, both of which are critical elements in the assessment and management of risk.

3. Crisis management as understood by respondent in CO4

The respondent is in “wide agreement positive” with the statement that, “*The company has appropriate crisis management framework to minimise the effects of a broad range of unanticipated events*”. With regard to the remaining six statements, the respondent each one indicates “wide agreement negative” once again suggesting disconnection between policy and practice. The question may therefore be asked, how, for example, can a crisis management policy framework worthy of the name not contain reference to the business continuity plan?

4. Beliefs concerning crisis management by respondent in CO4

To all seven statements the respondent shows “wide agreement positive” in his rejection of each of the statements related to attitudes towards crises. The “wide agreement positive” is broadly consistent with that of the respondents in CO1, CO2 and CO3 in that the directors refute the “it will not happen to us” view of crises. This view is not however consistent with the stance taken on crisis management policies and practices that are designed to minimise impact come the day.

Summary of cross-case responses to the exploratory questionnaire

Corporate Governance

From the aggregations of the responses to the exploratory questionnaire, the question of corporate governance in the four small companies taking part in this study would appear to be a matter of interest and concern to owner-

managers and key decision makers, irrespective of any form of distributed leadership at board level. The implementation of sound governance principles is however generally weak and would appear to be determined by the level of commitment, knowledge and awareness of an executive in a position of power and authority. Whilst the aggregation provides a useful overview, it should not be treated as being of statistical significance and it should be further noted that the number of respondents in each company differs thereby creating a skew.

Of the nineteen statements that postulate sound corporate governance practices that are relevant to small companies (London Stock Exchange 2004; Non Executive Directors Association 2007; Institute of Directors 2010), there is “wide agreement positive”, with eight of the statements amongst the four cases in this study, as shown below. None of the statements relates directly to risk or crisis management. Their focus is upon structure, processes, environmental scanning and communication.

Statement 4 - There is a division of responsibilities between the running of the board and the running of the business

Statement 5 - The board is of sufficient size and comprises people with a range of skills to ensure its responsibilities

Statement 7 - The board meets sufficiently regularly to discharge its duties

Statement 8 - The board agenda and papers containing appropriate information and are sent out in advance of the meeting

Statement 9 - There is a standard template for board reporting

Statement 13 - The board has a regular dialogue with shareholders

Statement 14 - The board comprises one or more non-executive directors

Statement 17 - *The board regularly reviews the external environment and business context*

The collective responses classified as “wide agreement negative” are three in number as shown below,

Statement 10 - *Directors declare any conflict of interest at the start of each board meeting*

Statement 11 - *The board conducts regular director and board evaluations*

Statement 15 - *New directors receive formal induction training*

One of the “wide agreement negative” responses alludes to the non-performance of a declaration of any conflict of interest normally made prior to the discussion of a particular item or at the outset of the board meeting. According to the Institute of Director’s “Standards for the Board”, albeit published prior to the Companies Act 2006, such a positive affirmation is nevertheless in accordance with the requirements of Section 175 of the Companies Act (2016), (Renton 2001). Such a declaration represents good boardroom practice (Webster 2007) and may serve as evidence of the board acting with reasonableness in its exercise of due skill, care and diligence in the case of any subsequent misdemeanour by an individual director.

The remaining two responses that are classified as “wide agreement negative” relate to inadequacies in director’s performance, development and training. Practices to the contrary are evident in the responses from CO2 concerning director induction where the MD himself is a Chartered Director and who, after resigning, has since established a company which conducts director development training programmes.

Responses to eight of the statements concerning corporate governance elicited “no overall consensus”,

Statement 1 - *The board has an established governance framework*

Statement 2 - *The board has adopted a recognised code such as the IOD code for unlisted companies or BS 13500*

Statement 3 - *There is a board charter or written terms of reference for the board and for any board committees*

Statement 6 - *The board largely focusses upon the long term success of the company*

Statement 12 - *All directors engage in continuing professional development*

Statement 16 - *There is a family governance mechanism (if applicable)*

Statement 18 - *The company has a policy for the selection and appointment of the external auditor*

Statement 19 - *The board uses the services of a company secretary*

Statements 1,2,3 and 16 in particular represent key components of effective governance (Institute of Directors 2010) and may be considered to be the core activities of a high performing board. That there is not “wide agreement positive” related to these statements may be thought of as indicative of a weakness in the foundations of corporate governance within the four cases. Such a board that has its focus on the short-term, tends towards micro-managing and lurches from crisis to crisis is labelled by the London Stock Exchange publication, “Corporate Governance A Practical Guide”, as “The Adrenalin Groupies” (London Stock Exchange 2004, p.11).

A belief that “It’ll be alright on the night”, a statement of unfounded optimism uttered by a third rate thespian, is the very antithesis of effective corporate governance and a predictor of impending disaster.

The responses from each individual case and from the aggregated responses are summarised, see Table 42 and Figure 49. In three of the four cases,

areas of “wide agreement positive” exceed the sum of “no overall consensus” and “wide agreement negative”.

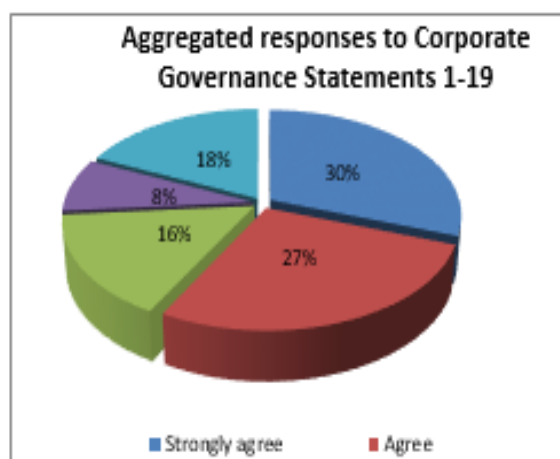
Two of these three companies, CO1 and CO2, work in what may be considered high risk areas and the third, CO4, has experienced the trauma of going bust.

Table 42: Responses (R) to statements related to corporate governance, $R=171$

	CO1	CO2	CO3	CO4	Total	%
Wide agreement positive	44	26	15	14	99	58%
Neither agree nor disagree	15	3	8	1	27	16%
Wide agreement negative	17	9	14	5	45	26%

Source: Author

Figure 49: Aggregated responses to corporate governance statement



S

Source: Author

Risk Management

Aggregated responses related to risk management from all four cases show “wide agreement positive” with nine of the twenty nine statements, see Table 43 and in Figure 50,

Statement 20 - *The board has established a risk oversight policy*

Statement 26 - *The board ensures that any discussion around strategy considers the full range of key risks to which the organisation is exposed*

Statement 34 - *The board focusses on those risks that, given the company’s current position, could threaten its business model, future performance, solvency or liquidity*

Statement 35 - *The board approves how the key risks will be managed or mitigated and which controls will be put in place*

Statement 36 - *The risk register is kept up to date through regular review*

Statement 40 - *The company has adequate insurance for its level of operations and staff numbers*

Statement 41 - *Staff are fully trained in their risk management responsibilities*

Statement 43 - *The board engages the services of an external risk specialist*

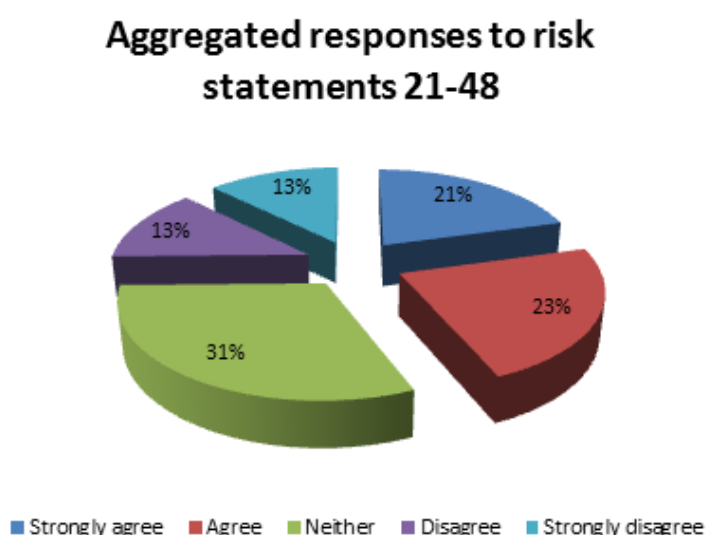
Statement 46 - *The directors are insured through a Directors and Officers Policy*

Table 43: Responses (R) to statements related to risk management, $R=261$

	CO1	CO2	CO3	CO4	Overall	%
Wide agreement positive	43	47	19	6	114	44%
Neither agree nor disagree	52	8	17	4	81	31%
Wide agreement negative	22	3	22	19	66	24%

Source: Author

Figure 50: Aggregated responses to statements related to risk management



Source: Author

There are four statements that show “wide agreement negative” with “no overall consensus” being found in sixteen of the statements related to risk management. These combined responses, totalling 147, are greater than the 114 responses that are in “wide agreement positive” with the statements. This could suggest limited awareness of company policies and practices and a lack of knowledge related to risk or that risk is an issue that in practice is not a matter of great concern in the context of corporate governance.

From subsequent conversations with the respondents, this situation results from a case of prioritisation within the hectic, and at time chaotic, lives of directors in small companies struggling with day to day survival matters. This phenomenon may be viewed through the parallel lens of Maslow's theory of hierarchical needs in that before self-actualisation can occur, more basic lower needs of survival and security must be met.

Survival and security in these instances are related to the core business activities of maintenance of the sales pipeline, order processing, cash collection and supplier payments. The responses from the directors of CO2, the asbestos removal business, show a total of 47 in "wide agreement positive", 8 in "neither" and 3 in "wide agreement negative".

Such responses could be interpreted as being a function of the industry in which the company is engaged and a reflection of the attitudes towards risk governance by the directors. Their responses to statement 62, see Table 44, are set within the section of the questionnaire dealing with crises, - *We have a relationship that links governance, risk and crisis management planning*- would suggest the latter.

This statement seeks to discover the extent to which the company has linked crisis management to risk management which itself is a core function of corporate governance.

Table 44: Responses to Statement 62 - *We have a relationship that links governance, risk and crisis management planning*

	CO1	CO2	CO3	CO4	Overall
Wide agreement positive	0	2	0	0	2
Neither agree nor disagree	3	0	0	0	3
Wide agreement negative	1	0	2	1	4

Source: Author

Crisis Management

There are seven statements within this particular section of the questionnaire. Each statement asks the respondents to determine their perception of procedures and policies that are pertinent to a crisis event. The responses show a divergence of views with 13 responses in “wide agreement positive” from a total of 63 responses to the statements, see Figure 51.

With the exception of CO2, it could be concluded that the remaining three companies unprepared to deal with a crisis should one arise and have taken limited steps to prevent such an event occurring. Table 45 summarises the responses to statements concerning crisis management and point towards three of the companies as being crisis prone to a greater or lesser degree with CO3 in a situation that, it could be argued, requires urgent attention.

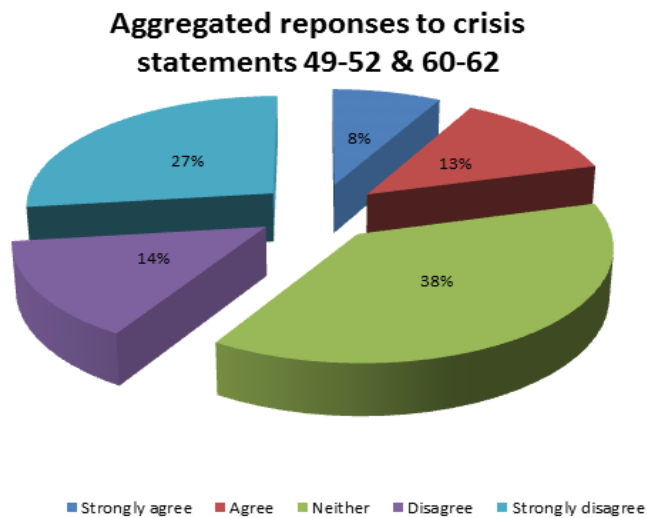
The one “wide positive agreement” by the sole respondent from CO4-*We have a relationship that links governance, risk and crisis management planning*- appears to be at odds with a company in which the owner-manager indicates in his response to statement 1 that there was no governance framework and in response to statements 20, 21 and 22 affirming that the company has neither risk oversight mechanisms nor risk management policies

Table 45: Responses (R) to statements related to crisis management, $R=63$

	CO1	CO2	CO3	CO4	Overall	%
Wide agreement positive	5	7	0	1	13	21
Neither agree nor disagree	15	5	4	0	24	38
Wide agreement negative	8	2	10	6	26	41

Source: Author

Figure 51: Aggregated responses to crisis statements



Source: Author

Beliefs and attitudes related to crises

The responses to statements 53-59 show the greatest unanimity within any section of the questionnaire, see Figures 52 and 53. These attitudes and beliefs largely represent what could be considered as sound and defensive attitudes and positions (Mitroff and Anagnos 2000).

There does however appear to be a decoupling between the respondent's attitudes and beliefs concerning crisis management and their lived behaviours.

Figure 52: Responses to statements related to crisis beliefs and attitudes

Statement No	Crisis Beliefs							
	53	54	55	56	57	58	59	
	Crises only happen to others. We are pretty invulnerable	Crises happen, but their impact on our business is small	Crises do not happen to a well-managed company such as ours	We are powerful and as such will be well protected from crises	If a crisis were to happen, it must be because someone else is has acted with malice and intent to harm	We need not worry about crises as, statistically, the chances of one occurring are small	Crises cannot affect the whole of our business since we have other premises independent of one another	
Strongly agree	0	0	0	0	0	0	0	0
Agree	0	2	0	0	0	0	0	2
Neither	2	2	2	2	1	2	2	13
Disagree	1	2	3	3	4	3	1	17
Strongly disagree	6	3	4	4	4	4	6	31
Total	9	9	9	9	9	9	9	63
Strongly agree	0%	0%	0%	0%	0%	0%	0%	0%
Agree	0%	22%	0%	0%	0%	0%	0%	3%
Neither	22%	22%	22%	22%	11%	22%	22%	21%
Disagree	11%	22%	33%	33%	44%	33%	11%	27%
Strongly disagree	67%	33%	44%	44%	44%	44%	67%	49%

Source: Author

Respondents do not appear to be beguiled by a Disneyesque view of the world where “everyone lives happily ever after” and choose to adopt what may be called a realistic appreciation of a crisis event, see Table 46. Yet despite this out-pouring of corporate nous, there is a wide antipathy and neglect concerning crisis management planning and preparation.

The responses point towards a failure to give little more than cursory attention towards an appropriately structured framework to enable the either the avoidance or effective management of a crisis. There is no appetite to test a plan and to engage in meaningful business continuity planning where there is limited agreement on the length of time the company could continue in a post-apocalyptic world.

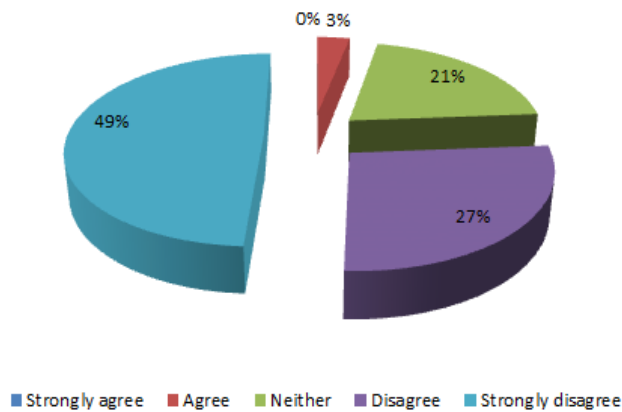
Table 46: Responses to statements related to crisis beliefs and attitudes

	CO1	CO2	CO3	CO4	Overall	%
Wide agreement positive	23	5	13	7	48	76
Neither agree nor disagree	4	8	1	0	13	21
Wide agreement negative	1	1	0	0	2	3

Source: Author

Figure 53: Aggregated responses to crisis beliefs statements

**Aggregated responses to crisis beliefs
statements 53-59**



Source: Author

Although shown as an aggregated level of disagreement of 76%, due to the nature of the statement this is captured as “wide agreement positive”- as the majority of respondents did not accept the statements as matters with which they concurred. Only two responses show affinity with a statement. Koontz-Traverso (2001), by way of an explanation of this decoupling writes,

“What small business, short on time, resources and cash, is going to spend days or weeks devising a quality response plan for its tomorrows when it is more concerned about keeping its bottom line intact throughout today?” (Koontz-Traverso 2001, p.4)

Such is the balancing act required of the directors of small companies in maintaining the health of the business. Yet despite the potential consequences of a crisis event, short term imperatives prevail over the need to prepare to meet a situation that directors recognise might one day arise. In the event of such an unanticipated occurrence and without even the most rudimentary planning, a crisis event will heap chaos on the business. As Jaques (2017) states,

“Any manager who says, “Let’s not over-plan for a crisis. I am sure we can respond well” should consider a study of Australian crises over a ten-year period undertaken at Melbourne University. It revealed thatmore than 25 per cent of the organisations went out of business or ceased to exist in their current form.” (Jaques 2017, p.1).

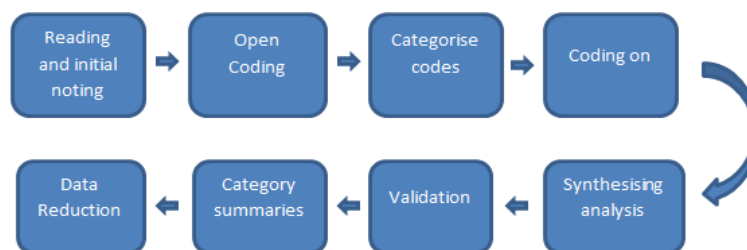
Within-case analysis and findings from the semi-structured interviews

Introduction

The responses from the questionnaire have illuminated the views of respondents regarding the core concerns of this study. The following section of the chapter delves deeper and presents the findings of the semi-structured interviews based on a within-case analysis. The results presented here are descriptive and focus on identifying and categorising responses to the research questions posed to the nine participant directors and owner-managers during semi-structured interviews.

This section relates directly to the research aim, namely: to investigate the contribution of corporate governance to risk and crisis management planning in small companies. As discussed in Chapter 5, responses to the questions concerning the relationship between corporate governance and risk and crisis management perceived by owner-managers and board members forms the basis from which a full coding template, see Appendix 12, is created. The process involves several stages, see Figure 54.

Figure 54: Phases of analysis using IPA



Source: Author

Interviews are recorded and transcripts are read several times, after which sections of text are identified in which participants indicate their view related to a specific question. These responses are then allocated a code category. Exclusive descriptions are written for each code.

Once all transcript extracts are synthesised and summarised, key concepts (KC) or themes are identified through a process of interpretive reduction, a process that seeks to extract meaning from the text.

This final stage is similar to what Kvale (1996) refers to as “meaning condensation”, an analytical technique based on the work of Giorgi (1975) who argues that qualitative data could be treated systematically without losing the richness and both the surface and subterranean meanings embedded within what he described as “ordinary language” Giorgi (1975, p.96).

Table 47 illustrates sample extracts taken from interviews with the participants who identify corporate governance with “compliance”, the second of two Higher Order Themes (HOT) arising from question 1a.

This higher order theme comprises two key concepts or lower order themes of “Legal perspective” and “Stakeholder perspective”. Participants’ understanding of the term corporate governance in “compliance” terms are however, less common than a description based upon values and ethics described as “ethical behaviours”.

The contents of table 47 show examples of how the responses to question 1a, “What do you understand by the term corporate governance?” are synthesised and reduced to resultant higher order themes. These themes are expanded at the conclusion of this chapter.

Table 47: Examples of test analysed from question 1a

Sample text extract related to the question on the respondent's understanding of corporate governance	Resultant Higher Order Theme
<i>"complies with legislation, legally"</i>	Legal perspective/Compliance
<i>"manning or managing the company or organization for that matter in the correct legal way"</i>	Legal perspective/Compliance
<i>"Corporate governance in effect is about your laws"</i>	Legal perspective/ Compliance
<i>"Corporate governance, it's making sure we abide by the law"</i>	Legal perspective/Compliance
<i>"Yes, it's a business and it's set up under statute and under company law, but the feeling we have in the business- it's like a family. So we trust each other".</i>	Legal perspective/ Compliance Stakeholder perspective/Ethical Behaviours
<i>"the benefit for all the stakeholders"</i>	Stakeholder perspective/ Ethical Behaviours
<i>"company is run well for the long term benefit of those stakeholders"</i>	Stakeholder perspective/ Ethical Behaviours
<i>"has due regard to stakeholders. corporate governance is that it is there to protect customers, clients, employees"</i>	Stakeholder perspective/ Ethical Behaviours

Source: Author

Emerging key concepts and higher order themes in CO1

Q1a. What do you understand by the term corporate governance?

The owner-manager director (CO1MD) responds to the question in an expansive and insightful manner choosing to recognise the collective oversight role of corporate governance as distinct from an operational function. He adds that the process of corporate governance is a matter for the board although preferring to use the term managing rather than directing. He also sees a role for corporate governance as an assurance provider and as a guardian/watchman overseer hence incorporating the two Higher Order Themes within his understanding of the term.

"Corporate governance is all about manning or managing the company. or organisation for that matter in the correct legal, moral [very long pause] yes, basically legal and moral will cover most things in a sound way. [Hesitation] Yes, it, sort of, sits above the daily

operations although it can be part of the daily operations but it always sits above the daily operations and would be mainly vested in the board as a board responsibility.”

The uncertainty of the Finance Director (CO1FD) is reflected in a 20 second pause preceding his response stating,

“Now you are asking me. [very long pause] This is not so much a definition, but more of a general thing.”

“Corporate governance in a company is when a company is run well – that’s quite loose, but it’s a term that means it complies with legislation, legally and basically is run for the benefit for all the stakeholders within and outside the company.”

He concurs with the CO1NED concerning operational effectiveness and his stakeholder perspective but additionally draws attention to the compliance and legal elements of corporate governance.

CO1FD adds a poignant comment when he refers to corporate governance as residing within the purview of the owner-manager and that the board is little more than a ceremonial rubber stamp that gives give legitimacy to the fluctuating decisions of the owner-manager and the resultant uncertainty brought about as a consequence of equivocation. He states,

“He [referring to CO1MD] is corporate governance. We have a board which is toothless I would say, perhaps that’s too strong a word – it has its say and it has its opinion, but ultimately it will rest on [CO1MD’s] decision making decision over the course of time”.

Exploring this issue in greater depth, the Commercial Director, CO1COMD, was asked, “How does that compromise your position as a legal director registered at Companies House where there is a requirement that you act independently?”

“I think to be fair to [CO1MD], I think people trust or accept most of his decisions anyway he is not a dictator, but invariably it's [CO1MD's] way more so than other people's way.”

Delving deeper into this rich seam of data, a further exploratory question was put to CO1COMD; “So, if I described the board say as largely a rubber stamping board, would that be accurate or not?” He replied that,

“[Hesitation] It would be accurate – yes. But there are useful discussions and content comes out of it but for other things, for other parts for developing and going forward and bouncing ideas around – yes there is a degree of rubber stamping but you know we just need to get board approval sometimes.”

In a less astringent mode, CO1COMD is aligning himself with the comments of the Finance Director in acknowledging that ultimately the board operates at the behest of the owner-manager and is subservient to his decisions.

These responses would appear to confirm a key element of the conceptual model in that the owner-manager's beliefs and attitudes are a significant influence on corporate governance as practiced in small companies. Those beliefs and attitudes dominate the system of corporate governance, however tenuous or sophisticated it may be, and establishes a culture of personality governance that vacillates according to circumstances.

The de-facto Non-Executive chairman (CO1NED) defines corporate governance in terms of doing the right things that are not dissimilar in essence to the definition given in the Cadbury report. His understanding incorporates an eclecticism comprising operational and control perspective, an ethical perspective, a policy perspective and a stakeholder perspective. It does not however specifically address, compliance, strategy and risk issues.

“Corporate governance I think is the sum total of actions and policies that essentially bring together the modus operandi of a company and ensures that it is both able to operate in an effective way, and in a

sustainable way, and in a safe way and in a way that has due regard to stakeholders which are within its remit – its area of influence.”

Q1b. What added value does corporate governance contribute to a small company like yours?

The response by the owner-manager (CO1MD) to the question of the added value offered by corporate governance suggests that the advantage is perceived as being one of external control based upon a code of behaviour,

“saves you getting into trouble! [laughter] It’s very simple”

CO1MD sees corporate governance as having greater relevance to larger companies, although he nevertheless maintains that the balance of advantage rests within its role of “watchman” rather than that of the “pilot”.

“by having good corporate governance it keeps you on the straight and narrow and stops you getting into trouble.”

When asked a supplementary question as to whether there is a role for corporate governance to act as “the pilot”, the answer followed a very lengthy pause, although the eventual response was some way from an unequivocal endorsement,

“Well it could have because, you know, you could do everything and be steered by corporate governance and that’s not a bad thing. If you can find a business that fits with a good corporate governance - hey everyone’s a winner!”

On being asked why small companies tended not to operate within a structured governance regime, CO1MD replies and comments on the role that NEDs can offer, albeit critical of their competence and values,

“I think it is because there are not enough non exec directors on company boards or independent non exec directors.”

The Finance Director, (CO1FD) after once again making a lengthy pause, responds to question 1b that seeks to elicit the participants view on the value that corporate governance adds to the company, stating,

“Very little if I am brutally honest, because..... I think it would add value to companies per se, but if you are talking about [this business]-specific, I don’t think it adds a particular amount of value – no.”

This response has specific application to CO1, although with regard to “companies per se” in a wider context he does however believe corporate governance adds value and sees it as a means by which long-term value can be created and short-termism avoided in that a strategic posture can be developed through the mechanisms of corporate governance. He also refers to the need for strong NEDs having a role in moderating the behaviors and excesses of executives in achieving long-term benefits to stakeholders.

“Yes, I think if a company is run well, then you will get long term value, long term benefit from that organisation - where if there is little or no corporate governance short termism may creep in for the sake of a few extra bucks here and there. It will make sure that the company is run well for the long term benefit of those stakeholders, which I have mentioned”

The NED Chairman perceives the added value that corporate governance offers as being that of process through a “framework” or a “checklist” within which the various activities of governance can take place. Amongst those he sees risk management and operational task roles as being of special importance. Such a view recognises that the governance of a small company and the role of the board is distinct from that of a large organisation in that process inevitably involves a twin focus on both strategic and operational management. It may be relevant that CO1NED has a background in the National Health Service which may partially explain his process-driven perspective of the value added through corporate governance. He states,

“It gives a small company a framework to look at, almost like a check list, so you can understand who is doing what and why and also to ensure the key elements of risk and operations are identified in terms of who actually does what.”.

Q2. In what ways do the values and beliefs of the owner-manager influence corporate governance?

CO1MD, a major shareholder in the enterprise, replied to the question in terms of shareholder value creation over the long-term and acknowledged that he believes corporate governance is a crucial element in achieving that goal,

“I think that I am looking at the long term shareholder value and that’s my primary role..... So, yes, Corporate Governance is an intrinsic part of creating value in what we do.”

Concerning his own ethical stance, he seeks to balance profit maximisation with correct behaviours

“Well, my values and morals [pause] - I believe that you must make as much money as you possibly can but do it in a sustainable and correct manner. Yes, [CO1] is all about making money and hopefully we do it in the right manner.”

When faced with a supplementary question as to whether he would work with businesses who did not share his ethical viewpoint, it is profits that override ethical considerations and this is justified by reference to others adopting a similar relativist position,

“We actually deal with a tobacco company and we recycle all their tobacco waste into compost, do we have a moral problem with that? No, our corporate governance is not that high. [laughter]”

CO1FD accepts, with a somewhat resigned demeanour, that it’s the owners’ train set and he can play with it the way he wishes, stating,

“Again, he will take on board people’s views ..., but ultimately he will do what he thinks is best and that’s sometimes not based on what is best for the company long term - he is quite a dominating figure at times”

In the case of disagreement, directors have recourse to the independent NED chairman although there are varying levels of confidence in the office-holder’s ability to effectively challenge the owner-manager,

“I would go to the chairman of the board and have a chat. Now we used to have a guy called xxxxx. To be fair xxxxx was probably a lot stronger character than what yyyyyy is, and ... he would possibly go and speak to [CO1MD] if that situation actually arose. With CO1NED I don’t feel, he has got the gravitas or clout to actually do that.”

The reply to this question by CO1COMD reflects a recurring trend of deference to the views of the owner-manager where his beliefs and values have become institutionalised as part of the corporate DNA over many years

“...most of the people are not mini-[CO1MDs] in effect, but we are all his ethics and beliefs.”

When asked to expand upon the nature of those values CO1COMD said,

“hard work, reward, hard work, questioning, challenging, always challenge stuff particularly hard work and challenge everything. Honesty and integrity, you know, it’s not bad principles to live by even in from a work point of view.”

The chairman of the board (CO1NED) recognises that the views of the owner-manager pervade the company and that single source dominance leading to intimidation can be a threat to the business. CO1NED undertook a SWOT analysis and presented this to the owner-manager who concurred that, in addition to being an asset to the business, through his domineering personality he also represented a threat. CO1NED responded saying,

“Well, the views of the owner-manager do influence and the owner-manager can be a very dominant person, because (a) they have set the business up so in that they must be quite an alpha male in that regard and, (b) because they are able to, being the employer, to ride roughshod over the views of others who might be intimidated by and actually what we have in CO1,”

“...I have made sure a SWOT analysis was done for the business and one of the threats which we identified was the strength of character of the current Chief Executive who is the owner-manager and he agreed that that he was a threat as well.”

Q3 How would you describe the way in which governance relates to risk management in your company?

CO1MD perceives a direct link between corporate governance and risk in its role as guardian/watchman and as a morality moderating factor. He says,

“Corporate governance de-risks the business because it prevents you from making rash, [decisions] for the want of a word, that are illegal or immoral”

When pressed to illustrate how this relationship is exercised in practice the owner-manager qualifies his answer and refers to a theoretical example in the past,

“Well, at the moment, it’s not a great board I have to say, but in the past we bring projects to the board for their approval,someone will say that we can’t do that because it’s breaking the law and we haven’t got a licence to do this or this could be effect of that, we just buy it and take the project on or adapt the project and make allowance for these factors”.

Asked what he would do if the board disagrees with a risky proposal with which he demurred, his replies,

“[Long pause and nervous laughter] It’s a good question. In the past I have won out and I have said no I think we ought to do this. But in actual fact hopefully I would be a big enough man to say, you know, we’re not going to do this if there was enough body of opinion against it”

This comment reflects a quite different perception of collective decision making to that of his fellow directors who view the decisions of the owner-manager as incontestable. CO1FD however acknowledges that the company’s attitude to risk has changed for the better and that change is due in part to having learned the lessons of history where risks have been taken that have subsequently been proven as unwise,

“We were a lot more gung-ho a few years ago and would test the boundaries considerably of what we had to do here. We’ve been burned a couple of times, quite literally once.”

As to the reasons for this “gung-ho” approach to risk CO1MD gave a brief answer,

“Maximising profits, maximising profits.”

CO1FD illustrates an example of risk taken in the pursuit of profit maximisation in the case of wood stored on a dockside berth,

“We knew that too much wood there would be a fire hazard because you get internal combustion from inside. We always knew that. There was a risk and to be honest about it, and we would all hold our hands up here, perhaps didn’t pay enough attention to it as what we should have. The whole thing went up in smoke and unfortunately for it cost us £600,000 as a one-off. So, that lack of corporate governance, hit us long term and I think we have changed over the last two to three years in terms of risk and taking it a bit more seriously than what we used to.”

Some changes in operational procedures do however emerge as a result of the fire on the dockside berth as can be seen from the following comment by the owner-manager,

“Now we have piles that are a quarter of that size and we turn them regularly, yes.”

A major risk concern of the Finance Director relates to a failure of compliance as a consequence of an inspection by the relevant government regulatory body. He offers an example of an event that occurred,

“External risks would be basically pissing off your neighbours in terms of smells and odours - we used to treat food waste here on site – made loads of money for a year so long term because the liquids contained stank to high heaven and the people down at the airport complained like hell and the Environment Agency came back and we had to close it down in the end.”

After this incident the behaviour of the directors changed their view of risk as memories inform attitudes and where, what the FD describes as a culture of “seat of your pants” management, morphed into a more mature approach,

“we’ve learned a bit from that and our view of risk both internally and externally has changed substantially probably in the last three or four years”

CO1COMD found difficulty in understanding the question asked and prevaricated somewhat with a reply that was related to his role rather than to the governance of the business overall stating,

“So the management and the governance is quite robust on commercial decisions, we’re quite robust. Financial risks we’re quite good at looking at these in the first instance. The management thereafter is sometimes a bit difficult”

The focus of his risk outlook is that of the commercial risks involved in negotiating a contract with a trade customer and he expresses a particular concern that whilst the terms of the deal may be well structured, there is a concern that on-going contract management is not of a sufficiently high standard. Although this personal view can be appreciated, it is surprising that as a director he was unaware of any formal risk register stating that he had *“heard the term before”*.

CO1COMD, when asked if there was, for example, a denial of access to the site that has a single point of egress, reflects the lack of planning as to how such a risk would be handled, replying that,

“[CO1MD] would probably go down there and shout and get them to move (laughter) he would shout and bawl at them - that’s how we cope. Or just how we would deal with people blocking our gate? Brute force I suspect. Maybe negotiate, it all depends.”

The NED offers a more erudite view of risk stating,

“I think it [risk] is a subset of corporate governance. I would say it is part of corporate governance.”

Adding that

“corporate governance is intertwined completely with risk, because ultimately, especially in a small company, there is often a small head room to succeed if things go particularly wrong and, therefore, these risks need to be identified so that a plan can be developed to mitigate risk and, indeed, people can then know that if something does happen, what they need to do in order to survive as a company.”

The asymmetry of information that typifies an issue related to NED effectiveness is illustrated in the answer to a question related to the existence of a risk management plan or policy to which the NED replied,

“I don’t know that. I haven’t asked [CO1MD] about that and I suspect that the answer is, no, I don’t know.”

Q4 What specific policies enabled directors to manage a crisis that the company has faced recently?

The latter of these three themes appears to support earlier comments from all four participants from CO1 relating to the impact of memories of an untoward event where the legacy of such an event informs a more cautious approach to future similar activities.

CO1MD makes a revealing comment concerning crisis management policies indicating fuzzy thinking as to the very existence of a policy and its application at a time of a crisis,

“In terms of the pipe that broke, I think that we do have a crisis management plan but we didn’t actually use it at the time.”

and referring to the dockside fire,

“We had, obviously, a series of meetings about it and we sort of basically agreed that it had been run in an unsustainable fashion, erm, yes, it had been run in an unsustainable fashion. We resolved not to do it like that again.”

The owner-manager then went on to state that as a direct consequence of the incident both he and the company are more risk-averse and with more than a hint of litotes says, *“I was a bit cavalier”*.

The FD, unlike the owner-manager, is unaware of the existence of any formal policy or plan related to crisis management and whilst lauding the entrepreneurial culture sees the lack of corporate governance procedures as *“our biggest problem”* when set in the context of long term sustainability

Q5 How do you determine a risk in terms of transfer, acceptance or mitigation?

CO1MD, when asked this question, replied,

“Basically, our philosophy is that if we’ve got a risk and we can afford the risk, we self-insure. If it is less than £70,000 we tend to take it on the chin because we can afford it and with insurance all you are doing is working out the probability and then paying them 30% for underwriting that risk.”

In determining the risks to transfer CO1MD states that,

“We do have a risk register, we have two levels of risk here, firstly, we have our risk assessments on every activity on the site and that is done on an operational level and on an annual or as we change a contract where we have a risk assessment done at a board level, no, it is at a senior management level; we have a risk register that demonstrates all the top 20 risks of the company and we review it every quarter.”

In a small business the board of directors, who act as the thinking and controlling mind of the company, are readily identifiable and as such carry a high level of personal risk in respect of their duty of care and accordingly an evidence trail of good preventative practice is a necessity to demonstrate “reasonableness” as to policies adopted, monitored and actions taken. CO1MD gives an example relevant to this issue,

“a guy fell off a belt and broke his hip and was in hospital and off work for months or whatever it was. H&S investigated it and found we just didn’t have a case to answer. It was down to the bloke not following our right procedures and yes there was nothing we were found culpable of at all.”

CO1NED confirms the importance of this evidence trail.

“Yes, yes, so there is an evidence trail, but there isn’t a clear process by which you know it was actually done. That’s right.”

And by way of formalisation of the process CO1MD stated,

“We are currently undergoing ISO 14000 or 14001 whatever it is, so hopefully the trail would be even more there by the end of the year when we get to accreditation.”

CO1FD summarises the approach,

“If we can afford that level of risk we will insure it and transfer that to someone else. So it depends on the particular risk and how people assess it and we have a score for each level of risk.”

CO1NED confirms that the external insurance broker presents the insurance cover against the assessed risks to the board for formal approval,

“it is done with a professional, the board has reviewed the insurance cover recently and concluded that the cover is okay”

CO1COMD emphasises the reliance on external expertise stating that,

“I am a salesman done good. So for my peace of mind I like to make sure that people much cleverer than I have looked at it and said that’s watertight or that’s an area for concern.”

The insurance review is conducted annually, and according to CO1FD there is intense scrutiny embedded within the review process,

“The policies every 12 months obviously to be renewed so we do go through it very much with a fine toothcomb. Every 12 months to see what we need to change.”

A vague answer from CO1COMD however, reveals a weak understanding of risk transference policy,

“Oh crumbs. We try and manage all risks I think because you can’t insure against things. I’m not sure; I don’t know what the insurance

premium would have been for firewood not catching fire. And it may have been an oversight so we try to manage risk on everything”

Q6 What is the owner-managers’ attitude towards risk and crises – a risk taker or risk averse?

CO1MD says,

“I would say that I am a risk taker. I will take a view on things and I will decide and I am a balanced risk taker because you can do nothing with no risk and without risk you won’t develop the company and move forward.”

This is also a view shared by CO1COMD with regard to the attitude towards risk taken by the owner-manager,

“Yes, the attitude is push it until it breaks and then bring it back one. So, is that a risk taker, probably yes?”

The owner-manager has however become increasingly more considered in his attitude to risk over the years and, as the business matures, he is more risk-averse than in the early start-up period,

“I am more risk averse now. But you know when you are starting a business with very little capital and very little anything else you do have to take much more calculated risks and you have to wing it and you wouldn’t get started and build up a business if you didn’t wing it”

He gives an example of such a change to a more risk-averse approach,

“As an example, we had a discussion on Monday and we found out that we wanted to do an activity that wasn’t quite on our permit so maybe four years ago we would have winged it and said let’s apply for the permit and do it now we are saying we are doing a trial we’ve notified the agency and we wouldn’t push it forward until we get the permit – so our risk level has gone down”.

Both CO1FD and CO1COMD echo the perception of the owner-manager related to this shift in risk appetite,

“But in terms to our attitude to risk, it’s changed and we are a lot less gung-ho than we used to be. We have had to.” CO1FD

“But this is where it has changed and we have had to have a few things happen to realise that we needed to change... So it’s changed but it’s more about [CO1MD] accepting pushing until it breaks and he’s actually stepped back and let other people manage it more.”
CO1COMD

In contrast with the operational directors, CO1NED comments on strategic risk and gives an example of how the board is taking a longer-term view of risks that are not operational or of an immediate and obvious nature. He states that the forward view of the company extends to five years, a relatively distant horizon for most small companies.

“for example, we have just agreed at the board meeting today, that we are going to have the next board meeting as a strategy away-day, because we believe that we need to start looking at the impact of the external environment on the company from 18 months to five years ahead”

Q7 What plans are in place to ensure business continuity post any crisis?

When asked what would happen in the aftermath of a severe storm, CO1MD replied,

“Well it depends on what crisis hit us - yes the structures out there wouldn’t be flattened they are all steel so they are not going anywhere and some parts of the business would suffer the interruption but would just carry on you know. As and when.”

CO1FD confirms that the “Disaster Recovery Plan” relates only to the office and not to the site as a whole and adds that it would be easy to hire other facilities, resolve IT and re-establish normal operations quickly,

“This disaster plan is really if the office is closed down, not so much the site. So basically if this building caught fire, what would we do? And I believe there is no problem actually to take us down to the airport and rent some space and our IT people, etc. would get us set up very quickly. So we could be there for weeks on end - not a problem.”

Without a plan the board of CO1 would, *ipso facto*, be extemporising and although there is a business insurance cover for interruptions in trade, the company is at considerable risk as the overwhelming evidence from research points towards confusion, delays and disorganisation prevailing as a crisis develops.

The Commercial Director, CO1COMD is aware of a BCP. His response nevertheless suggests that it has a low level of importance in the management of a post-crisis event,

“There is one, but I’ve looked at it and forgotten about it. There is a disaster recovery plan out there somewhere, but I am afraid that I have forgotten all about it (laughter) that’s not good is it?”

and adds the reason the board do not engage in scenario planning,

“No we don’t because it is too difficult. No we don’t do a mock-up of a disaster, I suppose we have systems in place if a server died and everyone knows how to act if it is down”

Such a high degree of self-belief in the skills of people and the robustness of systems corresponds with a prevailing attitude of aggrandisement where executive capabilities are invariably over-rated during a crisis (Mitroff and Anagnos 2000).

CO1NED summarises the stance of the directors concerning BCP and rationalises that the reason for a failure to produce and test a plan is due to Rumsfeldian “unknown unknowns”.

“There aren’t formal plans that I am aware of to ensure that the business continues post-crisis and the question really is, to what extent and what level of crisis are you meant to prepare for?”

Conclusions - interviews with participants in CO1

The dominance of the personality of the owner-manager of CO1 pervades each nook and cranny of the company. A well-educated man, the OM is a large physical presence and although there is a board, no one is in any doubt that he is the decision-maker in all but matters of detail. He has been successful in the past and is the archetypal entrepreneur who has “winged it” and at times such actions have resulted in disaster. Other executive directors respect his judgement and over many years have normalised the situation albeit with, at times, grudging acquiescence.

The presence of a de-facto non-executive chairman has been a moderating, though limited, influence, and corporate governance is seen largely in terms of compliance and regulatory observance. Past crises and the subsequent lessons learned do inform and influence the directors as to current behaviours and policy setting.

Risk management processes are robust in health and safety matters and the appointment of a compliance officer has re-enforced the directors’ view that past mistakes should not be repeated. The board receive a detailed health and safety report but risk in its wider context is not a specific board agenda item and the risk register is not accorded great importance.

Business continuity plans are set out in a disaster recovery document that is not reviewed on a regular basis to the extent that some directors are unaware of its existence. The default position in the event of a major crisis that may

cause an interruption to trade is that of extemporisation and a belief that normal service can be re-established in short order.

Emerging key concepts and higher order themes in CO2

Q1a. What do you understand by the term corporate governance?

CO2MD prefaced his response to Q1 with a satirical quip, *“Let’s start off with an easy one then”* that reflects his not inconsiderable expertise and understanding of corporate governance as a consequence of his Chartered Director status. He states,

“the IOD support, learning and development for not far off more than a decade has enabled me to have a really deep understanding of what a director should be, what a director should do and how they should conduct themselves”

His answer combines the concept of corporate governance as both pilot and watchman, the former equating with the higher order theme of operational excellence and the latter equating with the higher order theme of compliance

“I think that from the very beginning of a business, good governance, good guidance for every business is essential in order that they can navigate their way through a really complex and intricate world - a macro environment especially.”

CO2OPD echoes the view of CO2MD, and although he defines corporate governance largely in terms of operational practices, reference is made to risk and, as such, the role of the watchman is accepted as an element of corporate governance. CO2OPD states,

“Corporate Governance means effective direction of an organisation at board level when, when we set goals and targets that we'd like to see flow through the business from costs to risks to work life balance to individuals.”

CO2MD goes on to define corporate governance in terms of an ethical stance that acts as an assurance for stakeholders, both intimate and distant, and in so doing contributes to creating competitive advantage,

“We want to be a company that people come and work for, that people want to come and purchase a service from. Reputation is something that is difficult to build but very easy to lose.”

“We can not only offer our services in a fair business-like manner but also in an ethical manner.”

Q1b. What added value does corporate governance contribute to a small company like yours?

CO2MD sees appropriate and relevant corporate governance as adding value through the clarification of the company's mission and thereby contributing towards the success of the enterprise through increased awareness of what the company is trying to achieve.

“SMEs in particular I think, a great many don't understand the value of governance and the fact that, not necessarily complex corporate governance, but sound basic governance is essential for every SME in order that they can better define who they are as a company”

CO2MD summarises his views regarding the value of corporate governance. He sees it as making a positive contribution and as both the ethical and strategic foundations of the business,

“I think you can do very little wrong if you look at Corporate Governance as being the guiding principles on which your business strategy is based.”

CO2OPD prefixes his response to Q2b with the words,

“Corporate Governance has always been a little bit of a difficult one for me because I started on the tools a long time ago and

understanding corporate governance at director level is not my strongest attribute.”

His understanding of the value of corporate governance is limited and accordingly is a matter that he is content to leave to his MD. CO2OPD does however refer, in a convoluted way, to corporate governance being concerned with the leadership of the company, change management and managing risk that pertains in particular to the licences without which the company could not trade.

Q2. In what ways do the values and beliefs of the owner-manager influence corporate governance?

The owner-manager of CO2 has delegated day to day responsibility to the two executive directors and although he keeps a watching brief on the business, his role is principally that of shareholder whilst nevertheless retaining his directorship in a “quasi” non-executive capacity. It was evident that the executive directors hold the owner-manager in high regard and that his values continue to pervade and influence, CO2MD states,

“Prior to my becoming a director, the values that he espouses are still around in this building today. We trade fairly, we don't cheat customers.”

Whilst the MD admires the values of the owner-manager, it is acknowledged that these are personal values as distinct from a formulaic approach to corporate values and corporate governance that may be evident in large companies.

“I have a great respect for the way in which he managed the business over that quarter of a century and since. But I think that understanding Corporate Governance was something he really hadn't thought about too much.”

CO2OPD comments equivocally on the way in which he notices that the owner-manager's influence has waned and that his values are ill-at-ease with the business and its future direction.

“when we first came to the board CO2OM was the managing director but over the last year he has moved away and I think it is difficult to the way the board is now is very different to the way he managed the board. So his values, he is, well you probably..., don't sit as well with the direction in which CO2MD is taking the company”

This view is at odds with that of CO2MD and the prevailing issue of owner-manager hegemony. It is also inconsistent with regard to the moderating influence of the “outsider” the mantle of which the CO2OM has begun to adopt. CO2OPD concludes,

“CO2OM has no influence at all in the way that the company is directed now so CO2OM's interest is financial. So he's interested in how well the company is doing and the wealth of the company”

Q3 How would you describe the way in which governance relates to risk management in your company?

CO2MD illustrates the first of the Higher Order Themes in his response to Q3, stating that,

“Our corporate governance helps us, help me, as managing director to better quantify risks and understand what the ramifications may be should something go pear-shaped on a given day and it enables us as a board and as a business to reduce our vulnerability and certainly to manage the extent to which we believe we are vulnerable to a set of given circumstances.”

CO2MD stresses that risk management is an integral part of corporate governance in a twin capacity of risk mitigation and of risk and crisis management. CO2MD adds that risk is a policy issue for the board and that

risks are identified and categorised in a register, which is itself subject to review.

“We have a formal critical review on an annual basis. They are on rolling critical review because they are living documents. I refer to them on a monthly basis because there are always new risks out there and are always elements to risk that change given a set of economic circumstances and operational circumstances.”

The risks identified are internal and external, operational and strategic whilst the influence of relatively recent memories inform attitudes and approaches to risk.

“We have the risk management policy and the wider risk register and it covers everything that we consider at the moment to be risks potentially to the business. They range from issues to do with people internally, macro risks within the wider economy, financial risks, we are all aware of what happened in 2008, and equally risks around operations and the way in which we perform.”

Given the nature of the business activities undertaken by CO2, many of the risk policies and procedures are subject to external, independent audit and government agency inspections.

“We currently have 8 or 9 separate externally audited accreditations that are undertaken annually and I'm actually just starting just the season now where I'm going to see about seven or eight auditors from different companies in this business over the next few months.”

The MD states that these audits are business critical and that a failure or a non-compliance finding could result in closure or suspension of trade.

“any impact on our asbestos removal licence has the capability of shutting the business down within a month. Should that licence be reduced or removed then there would not be a CO2.”

CO2OPD concurs with the MD’s assessment of the importance of the licence and adherence to process, stating,

“We at board level, want to maintain the three-year licence which means that we are incredibly risk averse as far as our asbestos licence is concerned.”

The Operations Director draws attention to people risk, administrative and IT risk and succession planning and how socio-emotional relationships within a small business between owner-manager and staff can be a positive element of corporate culture but may also represent a threat and create a source of conflict,

“I’m certainly conscious of risk because there are so many ways. People risk; we looked at but we get longevity of people at CO2 and one of CO2OM’s (pause) faults is that he is very loyal to people that work with him and one particular member of staff who left at Christmas has been with CO2OM for as long as I have that’s 29 years. But over a period of years we saw him as a risk to the business. And it didn’t work. He resigned which I accepted, but CO2OM was still keen for him not to leave. And I had to make it quite clear that this was the time for him to go.”

In this particular instance the hegemonic authority of the owner-manager did not prevail as a result of the insistence of the Operations Director on a particular course of action where competence issues superseded gratitude based upon loyalty towards a long-serving colleague. Defiance by a “hired

hand” director in contradiction to the wishes of the owner-manager carries with it a degree of risk and accordingly acquiescence tends to prevail.

Q4 What specific policies enabled directors to manage a crisis that the company has faced recently?

CO2MD is critical of previous practices by the owner-manager who was then the Managing Director of CO2. He states that reactivity and a belief in the ability to cope was the dominant paradigm,

“I think that to some extent there was an element of the managing director being a bit lackadaisical about the whole affair and thinking that we can manage small things as we’ve always managed small things and we will deal with it.”

He adds that due process was absent and that as a consequence the company came close to closure in 2008,

“CO2 also weren’t looking after its licence properly as well as we should have been doing a decade ago and the HSE decided to take action. And at one point HSE were considering revocation of our licence”

CO2MD concludes, that as a result of governance failures, a pro-active approach to risk and crisis management had to be adopted,

“There was no framework certainly culturally and behaviourally for senior management to come together and talk about risk as a wider issue for the company. The practice changed when I became MD.”

The Operations Director acknowledges that operational policies and procedures had been weak stating that

“Lads were going to site and lads were more or less doing what they wanted to do on site so that shows poor supervision from managers.”

He nonetheless accepts that as a director he is ultimately accountable for the actions of his team members,

“My job as a director is to manage managers so it wasn’t actually a supervisors’ fault it was a directors’ fault. It was my fault because I should have processes and procedures in place so that doesn’t happen.”

Whilst it is understandable that the Operations Director has a great focus upon service delivery CO2OPD also accepts that crises born from a lack of strategic vision and ineffectual risk governance have impacted upon the business,

“CO2MD and I look at the strategic risks - what's the risk to the business from this and I know that CO2OM did when the licence was at risk but actually apart from that he just sees the licence as there.”

The MD recognises that there were signals of an impending crisis that should have been acted upon that were in each instance considered to be of minor importance. He adds that,

“There were signals and those signals manifested themselves quite early the different number of ways. They were all relatively small but then when viewed as a whole, it was very quickly realised that we had a major problem.”

The latter of these three themes appears to support comments from the participants in CO2 relating to the impact of memories of an untoward event where the legacy of such an event informs a more cautious approach to future

similar activities. With regard to post-crisis learning from the “near miss” related to licence renewal the directors implemented a structured review process and decided to use outside expertise to support internal procedures. CO2OPD states,

“we asked an external auditor to come in, audit our site work and the processes behind it and then what should happen then is that we should feed that into our company audit and system and when we send somebody out to audit our sites the weak area the external auditor picks up; the internal auditors then go to site and look for – it’s a way to try and change culture informally rather than too formally.”

The review process is not seen as a formal element of governance but rather an integral part of business continuity, as CO2MD explains,

“So post immediate crisis and hopefully post-resolution of that crisis we will sit down and review what has happened, why we believe it as hasn’t come; up what the ramifications are and where we could have or could not have of had an influence in doing things differently”

Q5 How do you determine a risk in terms of transfer, acceptance or mitigation?

CO2MD states the approach taken by the company towards the mitigation of risk

“is to effectively, for want of a better phrase, but I’m going to use the phrase, use due diligence.”

He considers due diligence as a wide ranging concept that goes beyond the realms of finance and uses this means of mitigation in commercial contract assessment and management in what he describes as

“a whole range of commercial activities to the level at which we are sophisticated enough to do so.”

He is particularly concerned with ensuring that liquidity levels are maintained – an issue that bedevils small enterprises which the UK Government has sought to address through The Late Payment of Commercial Debts (Interest) Act 1998. CO2MD states this is,

“a risk to this business and as with most, the risk is running out of cash and I am not funding somebody's projects up to half a million pounds to be paid in the autumn of this year.”

Risk is transferred through a plethora of insurance policies based upon discussion with and advice from a specialist commercial insurance broker.

“My annual insurance review takes the best part of an entire day with the broker because it simply isn't the case of discussing what next years' programme is about”

CO2MD does however have a cynical view of insurers as loophole seekers as and when an incident occurs,

“we also understand the underwriters are equally keen not to pay out anything and caveat their way to glory.”

CO2OPD is not involved in the detailed discussions concerning insurance. He states,

“CO2MD's the insurance bod. I don't sit in on insurance meetings, CO2MD just gives me a little synopsis.”

and is somewhat vague in his understanding of what risks have been transferred, *“wouldn't swear to it but last time I heard like we did discuss key man insurance”*.

Q6 What is the owner-managers' attitude towards risk and crises – a risk taker or risk averse?

CO2MD explains how the CO2OM started the business in 1980 and ten years later

“the business bombed in the early 1990s in the recession - and then the rise from the ashes again”.

The executive directors perceive the owner-manager as a risk-taker without being cavalier. The nature of the culture within the boardroom is open and risk discussions with the owner-manager are frank and open without the need for the executives to second-guess the view of the owner-manager.

CO2OPD recounts an incident where a colleague was killed on site and the owner-manager responded through initiating an intensive training programme to remove risk from the business. The owner-manager adopted a highly risk-averse position as a direct consequence of a serious incident,

“so when you talk of CO2OM on a scale of 1-10 about taking a chance, what he actually said was that I’m going to take no chances at all I’m just going to train you lot until its coming out of your ears.”

From a position of low autoschediastic behaviour in the aftermath of the death the Operations Director still sees the pioneer spirit within the owner-manager, *“CO2OM taking a risk or as a risk to the business probably 7 out of 10”*

The two executive directors, best described as “settlers”, see themselves as taking measured and approaches to risk based upon policies and practices that CO2OPD believes would lapse if CO2OM returned to the business.

“I think within that year at least half the policies we’ve got would slip. I think he would pay a lot less attention to the detail of ensuring policies are reviewed and I don’t think he would review of five-year plan”

Q7 What plans are in place to ensure business continuity post any crisis?

The responses of the directors to Q7 differ from the Higher Order Themes evident in the three other cases. In CO2 there is strong evidence of structured planning designed to ensure minimal disruption to the trading activity of the company.

Business continuity and crisis communication plans are well developed and emergency cash is available to meet contingent needs. Maximum time outage is estimated to be between six and eight weeks

CO2MD states,

“We would envisage having costs in the six figure range within the first 48 hours until post crisis and we have funds available for that. We have within, within, a business critical process and within a business continuity plan a designated recovery site and how we would physically manage.”

Back up of IT systems is an expensive cloud-based solution and directors are confident as to its robustness and security. One weakness in the planning that CO2MD accepts is that neither himself nor his Operations Director have undertaken grievance counselling training, *“something that I think we need”*.

The final word comes from CO2OPD who airs a measure of optimism regarding down time following a crisis, but who nevertheless reverts to a theme that has been consistent - the crisis from which the company could not recover would be the loss of its licence.

Accordingly, the emphasis on sound operational procedures is a critical factor in business continuity.

“As such for fire and flood we could start work within a couple of days. We could start work in a couple of days at least and continue our jobs but if we lost our licence tomorrow the company would close down.”

Conclusions - interviews with participants in CO2

Corporate governance is well developed and appropriate to the size and scope of CO1. Whilst the owner-manager is not actively involved with the operations of the business on a day-to-day basis he is a passive supporter of the MD's approach to corporate governance.

The key influence in CO2 is the MD whose attitudes and beliefs are an extension of those of the owner-manager but whose background and education take the business to a level that is rare in small companies concerning corporate governance and risk. CO2MD provides documentary evidence as to the various policies that are an integral part of best practice corporate governance and demonstrates compliance with the IOD principles of corporate governance for unlisted companies within the sections deemed applicable to small companies.

The company is in a sector where high levels of risk pertain and where the government licence to operate is an absolute necessity and a determinant of whether the company can function or not. Accordingly, health and safety and procedural operational matters are an obsession for the directors. The corporate governance regime is the impetus behind risk management policy in this narrower context as well as being the force behind risk management in a strategic setting.

Incidents in the past have been a major factor in moving towards stronger risk management policies and procedures with training playing a significant part in the improvement of on-site practice. Crises that have occurred, including a death, weigh heavily upon the directors and the crisis management plan is influenced by the personal trauma experienced as a consequence of the fatality.

The company has a comprehensive business continuity plan that is tested in table-top exercises and CO2MD is confident that, as a two-building site, the

decanting to second premises would ensure maximum time outage amounting to no more than three days at worse.

The greatest threat to the company is loss of the government licence to operate and in such an event that would result in the closure of the business. Hence it is not unreasonable to conclude that whilst the personal interests of CO2MD are a key driver of risk governance the consequence of failure and the “stick” that would be applied in such an instance is of primary concern.

Emerging key concepts and higher order themes in CO3

Q1a. What do you understand by the term corporate governance?

CO3MD responds to this question in two distinct phases, the first of which relates to compliance with the law and the second of which is concerned with attitudes and behaviours towards colleagues, customers and suppliers. He refers to the latter as “*A bit Christian in a way*” and references the so-called Golden Rule as expressed in Luke chapter 6 verse 31, adding,

“yes, so, so, we are very sure of how we treat people and we want to make sure that we treat people the way that we want to be treated”

This altruism is reflected in further comments made by CO3MD, in which he views the legal contracts as being of lesser importance to him than value-based relationships,

“You know, sometimes we have to use agreements, legal agreements, to just highlight what it is that we expect; what are our expectations are and how our relationship should be governed, but at the end of the day you know, those agreements are just a guideline for how we should be doing business either with our suppliers, with our resellers - and then employment contracts - they’re just a guideline as to how we should treat our employees”

CO3MD summarises his view stating,

“Corporate governance, it's making sure we abide by the law and we operate in accordance with the values and principles that we set out as being core to what it is that we believe in.”

The Finance Director, CO3FD, also places primary emphasis on corporate governance as being a framework for ethical practices, saying,

“it's about operating in an ethical way within a framework that is considered best practice, reasonable, effective”

He adds that corporate governance is a multifarious construct that incorporates structures to manage the business and facilitate a range of internal and external relationships,

“managing, managing risk effectively and ultimately is able to fulfil the requirements of its various stakeholders from shareholders to staff, regulatory bodies, government and so on.”

Q1b. What added value does corporate governance contribute to a small company like yours?

CO3FD sees the value added to a small business through corporate governance as being that of a framework that contributes to organisational effectiveness and legitimacy particularly during the metamorphosis from small to medium-sized enterprise,

“as these businesses become more successful and they grow, they have to start operating a little bit more like a corporate and have more structured framework or they are not going to attract the right people and operate effectively. And I think that's where good governance, quite aside and in addition to the risk and crisis side, will have a real part to play.”

CO3FD makes a further point concerning the transition from start-up to growth phase and the inferential subjugation of managerial hegemony facing

the owner-manager as he or she moves from “pioneer” to “settler” and some measure of corporate governance becomes therefore a *sine qua non*,

“small businesses, I’m generalising here, tend to be owner-managed. They tend to be successful or have reached a certain level on the back of the owner-manager. Obviously being pretty good at his desired job but, but, also being quite determined and “I’ll do it my way””

Q2. In what ways do the values and beliefs of the owner-manager influence corporate governance?

CO3MD is adamant that his values and beliefs are a key factor in the exercise of corporate governance within the company, stating in somewhat Kafkaesque terms,

“I would say 100%. If I do believe what it is that I believe in and the way I want to operate. I can’t be someone I’m not.”

CO3MD goes on to expand his belief that *“the feeling we have in the business- it’s like a family. So we trust each other.”* When asked if that trust had ever been abused, he cites an instance of a director, subsequently dismissed, using a company credit card for private purchases. The actions of that director were exposed through a whistle-blower following which CO3MD responded by confronting the executive stating that,

“he needed to be pulled up because he was in more than a position of trust; he was the keeper of the company coffers and he had abused the trust that I had in him. And he had abused his own standards and ethics”

CO3FD sees the sales background of the CO3MD and owner-manager as a critical influence on the management of the business where his close relationships to customers have been instrumental in creating opportunities. He adds a caveat however,

“I think what has happened in this business historically, is that desire to maintain and build those relationships and to grab opportunity, although I wouldn’t say at any cost, but maybe without considering the full impact on the business”

When prompted to expand further upon the non-universal nature of values across different cultures and the implications that could arise under the Bribery Act (2010), CO3FD replied,

“Personally, I think that the ethics of owner-manager here are very sound. I think one has to look at what’s normal in that market, and this is just hypothetical, we may say that in the UK taking a customer out to dinner at a half decent restaurant with a half decent bottle of wine is perfectly acceptable, but taking them for a long weekend to a five-star hotel backing onto a golf course might be considered to be a little bit excessive.”

CO3FD does however acknowledge, with accompanying laughter, that the board meetings do not include an agenda item regarding declarations of hospitality given or received or of any conflicts of interest.

He concludes,

“Certainly with my financial control hat on I’ve got absolutely no evidence of any untoward transactions.”

The company has two directors who are “living people” and one corporate director. CO3MD is the Managing Director whilst his spouse, although a de-jure director whose role may resemble that of a NED, plays a negligible role in the managing or directing the company.

The outsiders upon whom CO3MD relies are his accountant [W] and his solicitor [G], (*“I’ve had these two guys with me all the time”*) both of whom attend board meetings,

“[W] has been involved with me ever since I did the MBO [Management Buy Out] back in 2005. He sits on every board meeting. He plays devil’s advocate and Peter Pessimist to me who’s the optimist. [W], show me that this is actually going to happen and that plans are in place. That’s the role he fulfils.”

Q3 How would you describe the way in which governance relates to risk management in your company?

CO3MD ascribes a key factor concerning internal risk management as being that of the open culture of the company where colleagues are encouraged to think critically about the ways in which business is conducted and to consider the risks that are inherent within a particular process.

He emphasises task ownership on staff at all levels in the company and promotes a culture that enables individuals to exercise judgement, stating,

“Well I need things in this way if you don’t give it to me, yeah, we have a risk - so can you change things - so we have that culture where we encourage people.”

Whilst such a “laissez faire” style of management adopted by CO3MD may appear to be counter-intuitive to the prescriptive and authoritarian approach of the archetypal owner-manager, it nevertheless is a reflection of his particular ontology.

Through extension of this perspective, extemporisation is favoured over prescriptive risk management policies although CO3MD states that the company does have a risk register, a statement confirmed by CO3FD, where the basis of risk directly relates to the annual business plan. Many of those risk may be described as “micro operational” matters including the possibility of a key sales executive taking maternity leave as being “highly likely” and the concomitant impact being “severe”. This reflects the eternal issue of resource scarcity in small businesses where, for example, an important role

involving personal relationships comes to an end and in effect becomes a business critical concern.

External risks on the world stage affect the company's global markets and CO3MD points to a large fall in Middle East sales,

"It was because there was a war in Syria and god knows what else, things outside of our control."

He goes on to identify other external risks,

"currency exchange rate risks, there's tariff barriers, customs charges, there's the risk that regulations and the operation of products in market places if that changes so a combination of tariff and non-tariff barriers as well as exchange rate risks."

Given that the owner-manager clearly recognises that there are strategic risks that he perceives to be "outside his control" it should be axiomatic therefore that the board scan the environment and takes appropriate pre-emptive action to mitigate the impact of such an eventuality. When asked a supplementary question **"Have you taken out any cover as a consequence of what is going on in the Middle East? Anything that you didn't do before?"** CO3MD replied "No, No." although he later says that,

"On the exchange rate side of things what we do there is sit down with our bankers on a regular basis. They produce regular reports and we look at what their economists are saying about where the project where exchange rates will be."

CO3MD adds that risk is not a standard item on the board agenda although he refers back to the driver of risk management thinking as the business plan and adverse variances in the plan do trigger discussions that are risk related. CO3FD comments on this matter and refers to the backward-looking nature of the risk register that is memory-related and believes that as well as learning

from the past there needs to be a forward-looking perspective that occurs within the corporate governance framework.

“the business has a risk register where historically it has looked at what sort of risks it might encounter; We have talked about that we need to bring this on to the board agenda as something that needs to be looked at more frequently but haven’t If I’m honest.”

CO3FD refers to risk as an integral part of corporate governance that is concerned with, “*managing risk effectively*” and in particular to the various externally audited standards as being part of risk management,

“we have the ISO,9000, is it 9001? registration quality management, yes, it is. ... and I think 2015 and 2016 is on the horizon and within that there is really a real appetite for looking at risk and what I’ve tried to do is to introduce a little bit more risk management into the business by dovetailing into the ISO process”

The use of such bespoke, and credible, risk management practices are a means by which, and at relatively low cost, directors of small companies are able to demonstrate to stakeholders that they are taking reasonable steps to manage risk that is within their control so to so. CO3FD uses an example illustrate the difference using the “likelihood and impact” model,

“We’ve got to look at the potential for it occurring and the impact, so a meteorite from outer space crashes on the building we’re finished (laughter), but the chances of it happening are fractional.”

Mitroff (2000) refers to a view that sees risk in terms of a statistical rarity as “intellectualisation” although in this instance there is a distinction between a genuine statistical outlier and, for example, a major customer teetering on the brink of collapse being given extended credit.

Q4 What specific policies enabled directors to manage a crisis that the company has faced recently?

In the event of a crisis CO3MD does not have a plan and his response to an unforeseen event that may have negative potential for the company is,

“if something were to happen and we need to manage a crisis then either the operational management team or the senior management team would get together and say O.K. this has happened, and what resources do we need to mobilise to sort this out?”

CO3FD describes this approach in the following terms,

Personally, I think that there is an element of ‘next year we will be millionaire’s Rodney’ in the business (much laughter) My reference to Only Fools and Horses refers to over-optimism and just believing that it will come good”

This ex tempore approach is in line with the classification of crisis response that Mitroff and Anagnos (2000) describe as both denial and disavowal. CO3MD uses the services of a PR company to assist with a reputation crisis,

“and we have a sort of plan in place should the brown stuff hit the fan. Yes, yes who are we going to talk to? And how are we going to spin things? And you know, ...and have been working with them for seven years now, so they know the business and they know us.”

CO3MD has undertaken media training with the BBC, albeit seven years ago, and in the event of his absence CO3FD would deputise as spokesperson having himself recently completed media and crisis management training, of which the CO3MD was unaware, in a previous company.

In the case of CO3 there was one mention of post-crisis learning that took place following a lack of cost control in Research and Development due to what CO3FD refers to as an *“almost a head in the sand approach”* that

brought about a £600,000 overspend. The action taken as a result of this crisis is explained by CO3FD,

“cash flow is looked at on a daily basis, it’s being reported monthly.”

Other finance reports to the board now include

“P&L, balance sheet, some KPIs such as debtor days, creditor days which should be pointing towards – if things are getting out of hand, bank invoicing, finance availability, aged debtors, aged creditors, sales and order trends. There is a graph that looks at where is that heading.”

That cash flow crisis resulted in late payments to suppliers who then placed CO3 on stop which required emergency bank finance to resolve what became an existential crisis.

“we got a new loan from the bank and it was quite touch and go as to whether that was going to come forward and then, frankly, we were in a situation where if we got the loan we could carry on, but if it didn’t it would have withered on the vine.”

When asked **“Would better governance have either mitigated that crisis or, indeed, prevented it in total?”**CO3FD replied,

“Without a doubt, because it found itself in the hole and should have seen the hole being dug”.

Q5 How do you determine a risk in terms of transfer, acceptance or mitigation?

A major risk for small companies is that of cash flow and the timeliness with which invoices are settled. CO3MD chooses to use bank invoice discounting as a means of ensuring at least a large part of the invoice total is settled quickly. Although this is an expensive method of obtaining working capital,

the maximum exposure to an overseas debt is £1000 and for a UK debt £500. CO3MD opting for “*peace of mind*” says

“I’ve got no problem of paying the one or one and a half percent”.

This choice reflects the risk appetite of CO3MD who states,

“so it’s how much do I want in my pocket versus how much do I value a good night’s sleep. And I value a good night’s sleep more than a few thousand pounds at the end of the year because health is more important to me”

There is a concern in small companies that is associated with the health and safety of colleagues for both altruistic reasons and for fear of prosecution where the thinking and controlling mind can be easily identified. Hence the evidence trail is an important issue for directors in small companies. CO3MD states,

“We’ve got very robust health and safety procedures in place so that everyone goes through training at working at heights and that sort of thing, and we have not had any major accidents”

And asked if there was a robust evidence trail, CO3MD replies,

“Absolutely. Because that is all part of our Health and Safety side of things”.

CO3FD adds,

“we’ve got a car policy that labours the point about, you know, the employee is the most important asset at the expense of everything else and do not undertake long journeys and so on and so forth.”

As was stated earlier, the CO3MD relies on his accountant as solicitor for external advice but CO3FD points out a potential conflict of interest in such an arrangement related to their independence,

“the external advisors, I think also they are in a slightly difficult position because the business is a customer, so they therefore have future business to protect so they can’t be too demonstrative about how they tackle the issues, particularly with an individual.”

He does go on to qualify this view and concedes the advantages of the outside advisors,

“but at the same time they have got the objectivity to say, look I am not in here day-to-day, but what this is telling me is that you have got a major problem here.”

The directors of CO3 work through a local broker to monitor insurances and CO3FD is responsible for oversight of this process and to ensure there is not a feeding frenzy on the part of the broker at the annual review,

“We’ll have a discussion if we have the right policies in place as much of a sin as it might to be to under-insure, I think there is always a risk of over-insuring and duplicating cover in different things”

Q6 What is the owner-managers’ attitude towards risk and crises – a risk taker or risk averse?

CO3FD assesses the owner-manager’s attitude to risk in the following terms,

“I’d say that it’s more at the gung-ho end of the spectrum than the I’m not going to leave the house today in case something goes wrong but I wouldn’t say gung-ho at the expense of operating in an ethical manner - there is always a rainbow around the corner.”

A belief that the “glass is half full” is symptomatic of the pioneer where the risks implicit in the unknown are outweighed by a sense of eternal optimism. The owner-manager agrees with his colleague’s sentiments and takes a phlegmatic view of life and risk stating, that in the event of a crisis,

“we could run around saying woe is me and what the heck are we going to do? But that’s not very productive. So you just sort of take it on board and read it as is”

The owner-manager has given personal guarantees on both bank loans and invoice discounting that he sees in quite “matter of fact” terms as an integral part of owning a small enterprise and as such displays a large measure of self-belief and self-confidence.

“I have taken on board risk personally to ensure that this business has got a future because I believe it has a future. And that’s what I needed to do to make it happen. So, other people may say O.K. that’s too risky I am just going to sell it. That for me would be failure”

This self-belief is however tempered through “settler” key man insurance in the event of his incapacity to work in the business.

Q7 What plans are in place to ensure business continuity post any crisis?

When asked if he had a plan to ensure business continuity after, for example, a crisis such as an enforced denial of access to premises, CO3MD replied *“Nnnnno. It’s in my head Yes, I know – dangerous.”* **And if you are on holiday in the Bahamas?**

“O.K. so I’m camping out with my telephone, or I would work from home, but we don’t have anything written down. So there is an omission there and thank you for bringing that to my attention.”

As if rehearsing the argument to convince himself of a need to take action on BCP, CO3MD went on to add,

“Yes, precisely. It’s either on a Sunday when there is no one here. Yes, indeed. So, that in essence could be a weak point in a sense? Yes, it could be, absolutely.”

CO3FD agreed that there was no formal written BCP although the IT servers had recently been moved to the cloud to enable homeworking in the event of loss of premises. CO3FD adds,

“So there isn’t a plan in the sense of who gets notified, I mean there are key holders for this building that are on a cascade system from the alarm company. Do we have a plan that says these are the people who we call and we take a skeleton team off to a hotel or somebody’s lounge and get things going again, no!”

Time outage post crisis is estimated to be

“Potentially, I think it could be two or three months”

according to CO3FD and whilst loss of profits insurance is in place his belief is that customers would migrate to other suppliers. He recognises that a lack of planning down to the level of where the directors and managers should gather is a matter in a crisis where denial of access to premises is a reality, stating that,

“I think we really ought to give some thought to what we should do.”

Conclusions - interviews with participants in CO3

There are similarities between the two directors’ views on corporate governance and how it does, or could, add value although the emphases differ. The owner-manager primarily sees corporate governance through the lens of altruism whereby behaviours are signposted and relationships are facilitated. The Finance Director chooses to view corporate governance in the first instance as a construct which ensures compliance with statutes and directives in addition to providing the ethical backdrop against which business is conducted.

The value added through corporate governance is largely restricted to the role of the watchman although mention is made of its contribution to organisational performance and strategy. Outsiders, in the form of the

accountant and solicitor are key influencers in ensuring compliance and awareness.

The company has a risk register the focus of which is operational and pays minimal heed to strategic risks despite this issue exercising the mind of the FD with particular reference to business in the volatile areas of the Middle East and potential exposure through regional business practices that may be in conflict with UK law.

The company has recently experienced a major internal crisis related to a failure of cost control and that has resulted in significant improvements in financial probity. As such, memories have impacted upon processes.

The owner-manager takes a relaxed view towards crisis response and believes that he will cope without too many problems should an unanticipated event occur. Such self-belief has been the downfall of many small companies, a situation that CO3FD appreciates as a result of engaging in crisis management training in his previous role.

Such offhand, impromptu and autoschediastic behaviours and attitudes lean towards the norm in small business and hence the resilience level is reduced when a crisis materialises. The recognition that some action must be taken points to an acceptance of the practical wisdom of doing so, yet the managerial melee of a small business with scarce resources will tend not to prioritise planning to manage an unanticipated event that the owner-manager hopes will never happen. The owner-manager does however suggest that as a result of the interview he will take action to improve the resilience of the business.

Emerging key concepts and higher order themes in CO4

Q1a. What do you understand by the term corporate governance?

The participant director from CO4 is the former owner-manager and MD of a full service marketing agency that collapsed and as such the answers are

framed in the past tense as are his interpretations of “what was” rather than “what is”.

CO4MD provides a copy of a private letter written to his adult son and daughter explaining why the failure of the business occurred and what it means regarding their own futures. This expansive missive sheds light on the self-reflexive nature of CO4MD and on how, to its detriment, owner-manager hegemony pervaded and contributed to the fall of the business.

When Q1a concerning the definition of corporate governance was put to CO4MD his initial reply showed a level of hesitancy. He slowly said,

“mmm It’s a fairly new term to me - it was a term that I wasn’t familiar with and didn’t really resonate”

but then nonetheless continued on to present a coherent view aligned to the stakeholder model, stating that,

“My understanding of corporate governance is that it is there to protect customers, clients, employees more than shareholder value. It’s protection for the consumer more than shareholders.”

A further comment suggests his perspective is also closely aligned with an ethical dimension of the role of corporate governance as being that of,

“ensuring that products are sold by companies or the services that are provided by companies deliver what they promise”

With use of words such as “protect” and “ensuring”, these initial responses place his views on the primary role of corporate governance not as the “pilot” but as that of the “watchman”.

Q1b. What added value does corporate governance contribute to a small company like yours?

CO4MD sees the added value that corporate governance offers as that of positive “behaviour” across the company that has culture at its heart in delivering client benefits,

“Good behaviour by the board and the management and all the staff within the organisation..... professional integrity and dedication and commitment to deliver our promises to clients who were paying us fees.”

CO4MD reveals a further element of his view on the added value of corporate governance processes in terms of due diligence as part of risk management in the particular instance of recruitment and selection, a critical feature of any service-based company.

“I suppose you would say corporate governance is involved in enquiring about the key people you were taking on in terms of their background, not only their academic suitability and qualifications for the job but their mind-set, their integrity, and their honesty as individuals.”

This statement deals with several aspects of corporate governance in that it touches upon risk – especially people risk, ethical behaviour and the superordinate goal of operational excellence. A subsequent comment related to people risk, including his own dysfunctionality, suggests that CO4MD attributes failure in this area as a major contributory factor that led to the demise of the company,

“It was personality disorders and dysfunctional behaviour that created problems for me and the company. Perhaps I’m talking about myself as well”

Q2. In what ways do the values and beliefs of the owner-manager influence corporate governance?

In his letter to his son and daughter CO4MD writes of his arrogance having been successful and “believing I could walk on water”. He writes,

“I was making some very foolish business decisions, a mix of arrogance, recklessness and cockiness that resulted in some heavy financial losses. I bought a business out of liquidation and reinstated the original owners as the managers. That company and I lost £960,000 over four years”

CO4MD, despite possessing considerable business nous, displays naivety in his approach to due diligence with regard to new clients that at times approached recklessness.

“we took on client business as I explained a moment ago that was risky because they couldn’t pay their bills, but we were conscious, I think in corporate governance terms to take on businesses that operated honestly... we would carry out some superficial financial checks. Not enough.”

Q3 How would you describe the way in which governance relates to risk management in your company?

Corporate governance was largely unstructured in the early days of the company although as the business grew to around 25 staff, the board met quarterly and used an agenda to steer the meeting. The board meetings were however largely ceremonial over which the owner-manager presided,

“because I always made the final decisions and that perhaps alienated a number of my key people because they felt that whatever they advised on what to do I still had the final say and I took opinions and observed in this and the arguments that I didn’t always do what the majority of managers wanted me to do”.

It was the dominance of the owner-manager and his decisions that, in his own words, contributed to the demise of his company.

“when the business was getting close to failure and I overruled the rest of the board and took on three pieces of business which over three years cost the company losses of about £600,000 of working capital through these companies not being able to pay the best part of £3 million of turnover. I have to accept that my management team and my NED and finance director and company secretary said we shouldn't take on this business but I did.”

CO4MD gave a detailed description of an instance where an executive of a major plc demanded that in order to continue doing business CO4 should add 10% to their invoices which he would collect in cash at a later date.

“well you have enjoyed good fee income and if it is going to continue this has to be the deal”

This issue was considered but as CO4MD said

“I am ashamed to say that I took 24 hours to think about it because I needed the generous profits brought by that company”

and duly rejected. This decision proved to be correct as,

*“A year later he and a very high profile director of an international corporate law organisation who was employed as a main board director at ***** got found out and got five years and my client, ex-client, working with ***** got three years.”*

Although this incident influenced the behaviour and risk appetite of CO4MD the commercial pressures became such that the company took on greater risks in order to remain trading. That policy proved to be disastrous.

Q4 What specific policies enabled directors to manage a crisis that the company has faced recently?

Evidence of confusion between forward planning and reactive response can be observed in the reply to this question,

“Policies for me - it’s difficult to find the difference between policy and strategy. I had a strategy time each time there was a crisis. We lost client turnover and the strategies were always as soon as we could see client moving [away from us] we would rack up our new business development activity and go for a strategy, you may call it risk governance.”

CO4MD acknowledges that the company did not have policies to either prevent, mitigate or respond to a crisis and were reactive in spite of their involvement in preparing crisis management plans for clients,

“We never thought about writing a crisis management PR strategy or corporate crisis management plan for ourselves. We can see exactly what the clients needed but couldn’t see what we needed.”

Once again the operational imperatives of winning work and then delivering it to clients took precedence over forward planning. In the case of CO4 there is little evidence of post-crisis learning as similar crises from the past reoccurred,

“so I wasn’t sensible enough to investigate possible areas to protect us from a similar catastrophe on breaking clients’ equipment.”

Q5 How do you determine a risk in terms of transfer, acceptance or mitigation?

Of primary importance to CO4MD was gross profit and key man insurance for what he describes as the “*wealth creators*”. This cover would ensure that families would continue to be supported in the case of a death in service and cash would be available to employ an MD if required to enable the business to continue to trade.

The insurance broker provided advice and guidance at the annual review meeting. To the regret of CO4MD, that advice was heavily relied upon without challenge and then acted upon. CO4MD states that,

“I would sit down and review and if he told me to enhance areas of our cover I’d just sign up. I didn’t take an intellectual view. Yes, these were abdicating moments.”

Mitigation of commercial risk

“wasn’t particularly robust and it resulted in me having to put the business in administration”

and sales insurance proved to be prohibitive due to cost.

Q6 What is the owner-managers’ attitude towards risk and crises – a risk taker or risk averse?

CO4MD, from the outset to the maturity of his business life was a pioneer and an adventurer. He acquired a company and felt his business acumen would be enough to ensure success. On reflecting upon this he states,

“the time I took on the [new] company I was “gung-ho” to the point of stupidity. I hadn’t had any failures other than letting a few clients down accidentally so I took on the company out of liquidation and I thought I’d mitigated the risk because I knew the 2 founding owners.”

Basic corporate governance and financial due diligence were side-lined in the dash for profit, an arm’s length approach to managing the enterprise and the triumph of misplaced optimism over rationality. CO3MD states,

“Well, all the processes that you would expect me as an owner to have in place were not there because I was an absentee owner”

Q7 What plans were in place to ensure business continuity post any crisis?

There was a simple unwritten Business Continuity Plan but behind that was an underlying belief that nothing could or would go wrong. When asked,

Was there a sense of denial that this nothing could ever go wrong?

“Yes, yes - you are absolutely right and that’s how I see it now and this is why I shared that letter because you will see that paper to my children in that document that I am giving you completely honest replies and would draw the analogy not only with business but also in my private life as well.”

The plan, such as it was, was not shared with colleagues and never tested. It was based around insurance and the capital inflow that would result. When asked the maximum time outage that the company could have sustained CO4MD replied,

“Oh, I could probably survive indefinitely as long as I had the cash from the insurers to reinstate equipment and files were not crucial to this.”

BCP was instigated by clients who demanded that their documents and work in progress be stored in a fire-proof safe and this was audited through unannounced visits. CO4MD ran a profitable business for many years through hard work and good fortune but he states.

“I thought I could walk on water, most of what I did on the business and property front worked quite well”

Hubris and arrogance is admitted in the letter to his children and he summarises his autoschediastic approach to business,

“A lifetime of work squandered by my stupidity and greed in the first instance and then by blind panic and desperation as I tried to recover the situation by taking on new clients without properly checking their financial integrity or ability to pay what they owed my company!”

Conclusions - interview with participant in CO4

CO4MD created a company in the early 1970’s that some 40 years later went into administration and was sold. The owner-manager is a strong-willed man who had a sense of being invulnerable. Since the failure of his business he has suffered from a loss of self-esteem and an overwhelming sense of “mea-

culpa” in both a private sense and with regard to a loss of prestige in the commercial world.

His self-confessed understanding and appreciation of corporate governance is minimal although on being asked the question he is able to articulate the behavioural perspective and after some hesitancy the compliance view and the “keep out of jail” notion.

As the company grew and prospered CO4MD formed a board but his dominance was such that irrespective of the views of other directors he made the critical decisions and accepts that he should have listened to others.

CO4MD was a pioneer and a serial entrepreneur with an ego to match and a conviction that he could ride out a storm. He took, what he now sees as, extreme commercial risks when advised not to do so. He relied unquestioningly upon his insurance broker to provide the appropriate levels of cover and signed up for whatever was proposed rather than spend time on what would have perceived as an activity that did not contribute to profitability. He was unwilling to delegate such tasks to colleagues due to a need to be in control of every aspect of the company.

The focus of his attention was that of profitability based on high volume, high margin sales and as such, the time that one can argue should have been spent on thinking about risk governance was devoted to other areas of the enterprise.

Cross-case pattern matching and explanation building

Two of the four managing directors have an MBA and a third is completing his MBA in addition to being a Chartered Director by examination. The fourth MD, the owner-manager of the failed business CO4, does not have a high level business qualification. Whilst it would be foolhardy to attribute causality in respect of the failure of CO4 to this one factor, it may however be that through the processes of “working on the business” and an engagement with continuing professional development, in addition to “working in the business”

a deeper appreciation of corporate governance and its relevance to risk management may become more acute. This issue could offer opportunities for further research.

Of the nine directors who participate in this study, the MD of CO2 is outstanding in his understanding and application of appropriate, relevant and meaningful corporate governance. This is, in part, due to an intrinsic personal interest in the topic, but also as a consequence of close association with other like-minded peers through his involvement with the Institute of Directors and the intense study involved in obtaining chartered status.

Through a process of pedagogy and by learning through osmosis, CO2MD has developed corporate governance systems that are exemplary and could readily serve as a template for other small companies. It is recognised nevertheless that the nature of the industry in which the company is engaged carries with it a high level of risk and that there are external drivers within a volatile environment that function as both an incentive and as a coercive to operate a high quality corporate governance regime and to implement risk governance in particular.

Across all cases, the responses to the questions in the interviews display a sound appreciation of matters that are related to what might be called *phronesis*, practical wisdom, but the concept of corporate governance resides within a more ethereal hemisphere that is akin to *sofia*, academic wisdom, and accordingly is scantily understood nor meaningfully applied by many of the respondents.

As the business passes through the early growth and survival phases and thinking extends beyond production and sales so the “gung-ho” attitude becomes less evident and a more considered approach emerges as external moderators in the form of NED’s and professional advisors are recruited to act as sounding boards for the owner-manager. It is clear from the interview with CO4MD that he admits to his failure to listen to the views of other executive and non-executive directors.

With the exception of CO2MD, the evidence from the survey and the interviews point towards a weak and times minimal understanding of corporate governance and its role. There is, however an acceptance that it is somehow a “good” that carries with it an inherent value, but that value, such as it is, remains hidden in the fog of ignorance. Indicative of this limited knowledge is witnessed in that, when shown the IOD’s *Corporate Governance Guidance and Principles for Unlisted Companies in the UK*, with one exception, the directors in all of the four participating companies were unaware of its existence.

The answers relating to their understanding of corporate governance fall into two distinct areas: those answers that are related to a perception of corporate governance as a compliance regime and those that associate corporate governance with a code of ethical behaviour. The role of corporate governance as the “pilot” and as a contributory factor in risk management was barely mentioned.

Without an acceptance that a high level of risk is intrinsic in the creation and management of a small business there would be few entrepreneurs and even fewer successful entrepreneurs. It is therefore unsurprising that a “gung-ho”, pioneer spirit is evident in many of the directors in this study who have established a small business and that a similar pioneer mind-set is infused in the management teams who work in them.

The autoschediastic mentality of the owner-managers and directors participating in this study derives from high levels of self-belief, optimism and a “can do” attitude bordering at times upon arrogance and hubris. Policies and plans tend to be weak, non-existent or “they’re in my head”. Such self-belief is translated through the substitution of planning in favour of Freudian defence mechanisms related to denial and an over-exaggerated conviction in their ability to cope should an unanticipated crisis event occur. Evidence from the literature shows this conviction to be misplaced and this is

recognised by CO2MD. whose approach to policy and planning differs greatly from that of the directors of the three other companies.

Although some participants expressed healthy cynicism regarding the transfer of risk through insurance, there is a widespread belief that the insurance company would settle without a great deal of quibbling. The lack of a plan and appropriate recording of assets, loss of intellectual property and destruction of premises are viewed through a reductionist perspective as matters that could be dealt with speedily in the chaotic aftermath of a crisis and in the face of a loss adjuster seeking detailed information.

Business Continuity Planning likewise is generally anaemic with such plans that had been prepared lacking in detail and directors being unaware of their existence. The overall status of business continuity planning is that an event that might incur the implementation of a business continuity plan is very unlikely to occur and hence it becomes a consideration of minor importance. Thinking along such lines accords with Mitroff's (2001) theory of the Intellectualisation of Crises – "We don't have to worry about crises since the probabilities of their occurring are too small" (Mitroff 2001 p.47).

Summary of Findings

The owner-managers' and directors of the small companies participating in this study generally accept that there are omissions and weaknesses in their corporate governance, risk and crisis management processes and claim that the reason for this relates to the supremacy of operational imperatives upon which much of the focus and energies of the board is directed.

The findings are broadly consistent with the limited literature relating to small companies and corporate governance, an area of research that cannot be understood without reference to the owner-manager who is invariably the central decision-maker within the business (He 2008; Bridge and O'Neill 2013; Durst and Brunold 2017).

The findings also concur with the view of Child (1997) in that despite the dominance of the owner-manager, the chances of their success will be influenced by the remaining organisation members' willingness to support them . CO1FD in states,

“he is not a dictator, but there will be a topic for discussion or an item for discussion and the board will comment on something, but invariably it's [CO1MD's] way more so than other people's way.”

CO4MD acknowledges his own dominance as the central decision-maker, and recognises the consequences of alienating board colleagues,

“because I always made the final decisions and that perhaps alienated a number of my key people because they felt that whatever they advised on what to do I still had the final say and I took opinions and observed in this and the arguments that I didn't always do what the majority of managers wanted me to do”.

Moving beyond owner-manager dominance, Uhlaner et al (2007) state that owner-managers in small companies “often rely on informal controls rather than contractual governance” (Uhlaner et al. 2007a, p.276) p. 276 that are based upon social capital and trust resting upon deep and long-standing relationships with family members and employees (Mustakallio et al. 2002).

Evidence of such trust can be seen when CO1FD says,

“I think to be fair to [CO1MD], ... people trust or accept most of his decisions anyway”

The findings of this study show that trust is a critical component within the informal governance system in small companies where there is a high degree of internal and external collaboration and exchange. CO3MD for example, states,

“but at the end of the day you know, those agreements are just a guideline for how we should be doing business either with our

suppliers, with our resellers - and then employment contracts - they're just a guideline as to how we should treat our employees"

CO3MD adds,

"the feeling we have in the business- it's like a family. So we trust each other."

The sense of hurt is acute once that bond of trust has been broken. CO3MD refers to an incident where the FD had been using company credit cards for his own purposes,

"he was in more than a position of trust; he was the keeper of the company coffers and he had abused the trust that I had in him"

From comments such as these it would appear that corporate governance is more about working in collaboration with internal and external stakeholders rather than control. This is, nonetheless, tempered by an acceptance of the primacy of the ultimate decision-maker – the owner-manager.

There is a sense that the boards in small companies differs greatly from those in large organisations due to the directors' involvement with a range of authentic relationships some of which act in the role of quasi NEDs as critical friend to the organisation. Those relationships extend beyond the contractual to peer-to peer networks, professional advisers and consultants.

The literature concludes that beyond a system designed to control and monitor, corporate governance in small firms fulfils a role relating to enterprise that contributes to longer-term success as the "pilot". The respondents in this study however consider the primary role of corporate governance to be concerned with compliance and behaviours rather than entrepreneurial activities.

"Corporate governance is all about manning or managing the company.... In the correct legal, moral [very long pause] yes, basically legal and moral will cover most things in a sound way" CO1MD

“My understanding of corporate governance is that it is there to protect customers, clients, employees more than shareholder value. It’s protection for the consumer more than shareholders.”CO4MD

“Corporate governance, it’s making sure we abide by the law and we operate in accordance with the values and principles that we set out as being core to what it is that we believe in.”CO3MD

An exception to that is CO2MD who states that corporate governance has a “navigational” function,

“I think that from the very beginning of a business, good governance, good guidance for every business is essential in order that they can navigate their way through a really complex and intricate world - a macro environment especially.”

An overview of emerging key concepts and higher order themes

Q1a. The two Higher Order Themes emerging from Q1a are Ethical Behaviours and Compliance. Key concepts within the former focus upon operational excellence and ethical practice. A further key concept relating to compliance is that of the role of corporate governance as *“the watchman”*.

Q1b. The two Higher Order Themes emerging from Q1b are polar opposites. One theme asserts that corporate governance contributes to success whilst the second theme is that corporate governance adds limited value.

Within these Higher Order Themes reside key concepts as to the positive aspects of corporate governance such as “risk management, supports internal motivation, a means of achieving structure at board level, PR value, adding to a positive corporate culture and defining the nature of the company”.

Q2. The Higher Order Themes emerging from Q2 are those of owner-manager hegemony and the moderating impact of the outsider.

Q3. Three Higher Order Themes are evident from the responses to Q3. Firstly, that risk is a key element of corporate governance; secondly owner-manager hegemony effectively over-rides governance policies related to risk and finally that history and memories informs current thinking related to risk.

Q4. The three Higher Order Themes related to Q4 are that ambivalence tends to be the default position; operational considerations are of primary concern and that post-crisis review does take place.

Q5. The Higher Order Themes relating to the responses to Q5 are firstly that, there is a subjective approach to acceptance of risk and that secondly that there is a significant reliance on advice from external specialists.

Despite the subjective nature regarding the risks that could be considered acceptable and what should be mitigated or transferred, there is however a common theme related to the maintaining of an evidence trail to demonstrate reasonable diligence on the part of the board.

Q6. The Higher Order Themes for Q6 are displayed in attitudes that lean towards the “pioneer spirit” which, as the business matures, shifts from a “gung-ho” approach to a more considered attitude resembling what may be called those of the “settler”.

Q7. The Higher Order Themes related to Q7 concerning business continuity planning are those of extemporisation and an autoschediastic approach. In general, formal planning for business continuity is ill-structured and there is a belief that “it will be alright on the night”. .

Table 48 gives higher order themes from the reductive process.

Table 48: Research questions and higher order themes

Research Question	Higher Order Themes
1a What do you understand by the term corporate governance?	Ethical behaviours Compliance
1b What added value does corporate governance contribute to a small company like yours?	Contributes to success Adds limited value
2 In what ways do the values and beliefs of the owner-manager influence corporate governance?	Owner-manager hegemony Outsider moderation
3 How would you describe the way in which governance relates to risk management in your company?	Key element of corporate governance History and memories inform
4 What specific policies enabled directors to manage a crisis that the company has faced recently?	Ambivalence Operational considerations Post-crisis review
5 How do you determine a risk in terms of transfer, acceptance or mitigation?	Reliance on external specialists Subjective approach to acceptance of risk
6 What is the owner-managers' attitude towards risk and crises – a risk taker or risk averse?	Pioneering risk taker Mature settler
7 What plans are in place to ensure business continuity post any crisis?	"Ex Tempore" mind-set Autoschediastic perspective

Source: Author

Chapter 7-Discussion and Conclusions

Overview of the chapter

The final chapter is structured around six main sections. Following an introduction, section two revisits the research context. Section three contains a summary of the findings of the study.

Section four provides some reflections on the methodology used and sections five and six outline the contribution of the thesis to both theory and practice.

Section seven discusses the limitations of the research and makes recommendations for future research, respectively. The thesis then closes with some concluding remarks.

Section 1: Introduction

The purpose of this thesis is “to explore the contribution of corporate governance to risk and crisis management planning in small companies”. The research involves detailed examination of the relevant literatures which reveal that extant research into corporate governance in small companies is underdeveloped both conceptually and empirically. Furthermore, research into the link between corporate governance, risk and crisis management planning in small companies is *de-minimus* and thus, this study addresses a gap in the current body of knowledge. The contribution to knowledge is detailed in sections five and six of this chapter.

From the literature, a provisional conceptual model is developed and the central research question emerges, “How can corporate governance contribute to risk and crisis management in a small company?” together with three related “theory questions” and a series of “interview questions” following Wengraf (2001). The “theory questions” are:

1. *What do directors perceive to be the purpose of corporate governance in their company?*

2. *What are the factors that link corporate governance to risk and crisis management?*
3. *How does the owner-manager's ontology and axiology affect corporate governance, risk and crisis management?*

Section 2: Revisiting the research context

Based upon the literature review, the provisional model, see Figure 55, establishes the contextual frame of the small, closed company, its endogenous and exogenous landscapes and in particular, the influence of the owner-manager, the details of which are expanded upon in the following paragraphs.

Figure 55: Provisional conceptual model for corporate governance, risk and crisis management in small companies – the endogenous and exogenous landscapes.



Source: Author

In developing this provisional conceptual model, the broad backdrop of the collibrational approach, see Figure 2, remains as the strategic context within which corporate governance in small companies is examined and where the

literature points towards widespread failure on the part of small companies to introduce effective corporate governance, with or without a code as guide, (Drummond and Chell; Crossan 2015) and to analyse, consider and take preventative actions to minimise the risks faced or to prepare and test a crisis management plan (Gerber and Feldman 2002; Hough and Spillan 2005a; Budge et al. 2008a; Herbane 2013b).

With reference to the provisional conceptual model, see Figure 55, the beating heart of a small company is the owner-manager whose beliefs and attitudes dominate the business (Curran and Blackburn 2001; Kotey and Slade 2005; Torres and Julien 2005; He 2008; Bridge and O'Neill 2013; Smit and Watkins 2017). The following comments by directors participating in this research exemplify and amplify this claim concerning the owner-manager,

“Again, he [the owner-manager] will take on board people's views ..., but ultimately he will do what he thinks is best and that's sometimes not based on what is best for the company long term - he is quite a dominating figure at times” from CO1FD.

“Prior to my becoming a director, the values that he [the owner-manager] espouses are still around in this building today. We trade fairly, we don't cheat customers.” from CO2OPD.

“the feeling we have in the business- it's like a family. So we trust each other.” from CO3MD.

In a small company, it is neither a code nor a protocol that drives corporate governance. Rather, it is the disposition, pervasive values, beliefs and attitudes of the owner-manager that provide impetus behind the level of intensity and engagement with corporate governance and its constituent elements of risk and crisis management (Lobontiu and Lobontiu 2014; Spiers 2017).

Although within the model, the in-company perpetual dynamic, driven by the owner-manager, determines effective corporate governance, associated with that process there are four exogenous factors that influence those endogenous quadrangular linkages.

There are, for example, societal values such as the changing attitudes towards CSR, environmental impact and product ethics that, through osmosis, influence the operational tenor of the company (Haugh and McKee 2004; Carter and Jones-Evans 2006).

Likewise, procedures and processes emanating from legislation and industry protocols create commercial pressures that foster primacy of resource utilisation upon operations that are designed to ensure survival (Crossan et al. 2015; Falkner and Hiebl 2015).

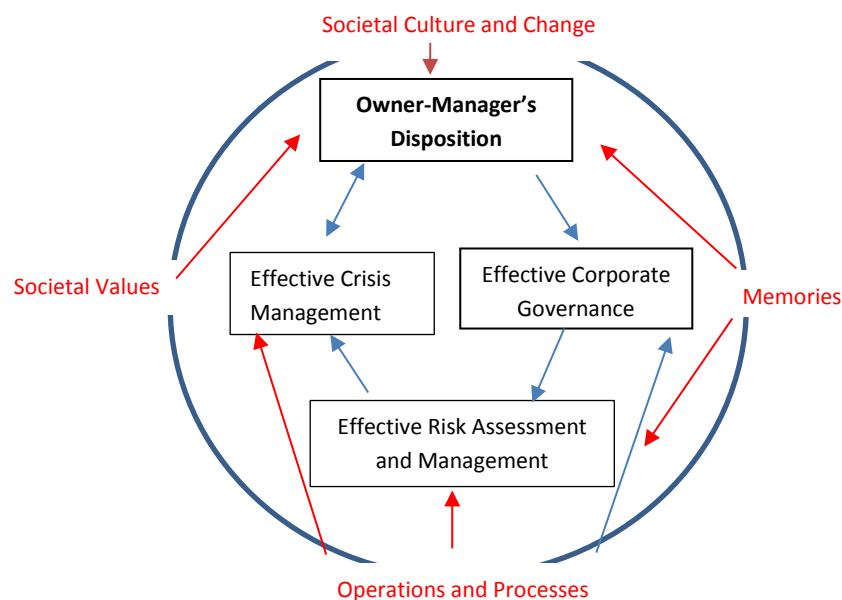
The pace of change and the nature of our cultural norms also touches the epidermis of the company as radical shifts in technology (Gibb and Davies 1992; Deakins and Freel 2006) and internationalisation impact upon management style and employment practices. Finally, the legacy of memories and associated past events, for example the fire at Summerland on the Isle of Man, the canoeing disaster at Lyme Regis and the Aberfan landslide, prompted by review and reflection, lead to changes in behaviours, practices and perspectives (Mitroff and Anagnos 2000; Topper and Lagadec 2013; Hopkins 2013) with the objective being that the ubiquitous “lessons” will be learned.

The activation of the internal quadrangular loop of the model stresses the dominance of the attitudes and beliefs of the owner-manager (Gilmore et al. 2004) as the driver of culture and activity in a small company. It shows that this dominance then prevails in determining the degree of engagement with effective corporate governance that in turn promotes and champions meaningful risk and crisis management practices. The revised conceptual model, see Figure 56, reflects nuanced changes to the provisional conceptual

model as a direct result of responses to the research questions. The awareness on the parts of directors of pertinent externalities is shown as having considerably greater bearing upon the internal culture and the governance dynamics of the business than was previously thought.

One such exogenous factor of note in particular is that of the raised profile of corporate governance within the public discourse that has in turn heightened the general level of awareness concerning legal and compliance issues within all companies (Institute of Directors 2017). Added to this awareness is the growth of the public debate concerning the social responsibilities of organisations that in turn influence values and attitudes to change amongst company directors (Albareda et al. 2007). The small company is not immune to the changes in wider society and the revised model shows those externalities conjoined with the internal environment as they bestride the permeable perimeter the organisation.

Figure 56: Revised conceptual model for corporate governance, risk and crisis management in small companies reflecting the bestriding externalities



Source: Author

The literature points to Culture and Change (Rafiee and Sarabdeen 2012), Memories (Sommer 2011) Operations and Processes (Institute of Directors 2010) and Values, such as those expressed by the Financial Reporting Council, (Carr 2017) as being four highly influential force fields that bestride the internal-external interface between the company and the environment. These influences reflect the tectonic shifts that are taking place in wider society on both global and national platforms that inevitably impinge upon the internal reality of companies.

Such “becomings”, drive both legal and collibrational change, and are aligned with the school of process philosophy first articulated by Heraclitus as a counter to the philosophy of “things” and their immutability espoused by Plato and Aristotle. Processual thinking points to a truism in that the directors of the small companies participating in this study will indeed never step into the same river twice. Hence, it could be argued that the term “*governance*” is a misnomer that should be read as “*governing*” to reflect accurately its changing nature and the dynamism of the processes involved.

The disposition of the owner-manager remains central to the argument and is the driver behind the extent to which a corporate governance regimen, worthy of the name, operates. The effectiveness of that regimen then determines the efficacy of risk and crisis management that may vary, depending on the views of the owner-manager, between a laissez faire approach that is fatalistic in the extreme to a well-crafted analysis of risk and a series of plans to manage and mitigate crises and to ensure business continuity is secured. The owner-manager’s personal attitude to crises is however, a further direct factor, apart from corporate governance procedures, that directly affects the approach to crises. This approach involves a personal psychology that differs from denial on one hand to a risk aware and crisis prepared mind-set on the other. Hence the model shows a twin headed arrow suggesting an ebb and flow whereby the owner-manager’s views both influence, and are influenced by, crises.

It has become evident throughout the progress of this study that each bestriding influence has a more profound impact on the small company than that anticipated in the original model. Evidence obtained during the course of the study shows that such influences are instruments of perturbations, creators of uncertainty and sources of organisational fracture that combine to present challenges to the directors and owner-managers' relating to the governance of small companies with limited resources. A concise review of each of the externalities follows.

Culture and Change

The macro-changes evident during the period in which this study has been undertaken include, for example, a rise of populism and increased mistrust of elites, the growth of secularism, further moves towards boardroom diversity, instant dissemination of both accurate and bogus information to a worldwide audience, the ever closer coupling of systems, the dichotomous phenomena of increased freedom for some alongside growing oppression and terror for others and a greater public interest in the ways in which public and private corporations operate. The speed of this change is unprecedented and as societies begin to understand the implications of The Anthropocene, small companies, in order to thrive, must be aware of, and respond to, these shifts. Examples of the impact of changing cultural attitudes are found throughout the evidence obtained from participants in this study. The case of raised standards for environmental protection resulted, in two of the companies concerned, in much improved processes, failure of which to observe carry the most serious of consequences. The Bribery Act, 2012 and the Companies Act 2006, have impacted upon operations and processes and were particularly germane to the overseas business undertaken by CO3 in the Middle East. The directors of CO3 made special reference of changes in process as a consequence of the requirements of the Bribery Act in particular.

Memories

The mantra that “Lessons must be learned” is uttered after every crisis by those who have presided over failure. Whether the crisis is an exploding oil rig in the Caribbean creating environmental devastation, a jetliner flown into a mountainside, the needless loss of life and property in street riots or another child abused by those in whom they placed their trust, flowers, teddy bears, candles and vigils precede the ritual enquiry and a report produced calls for changes.

Within the confines of a small business, mayhem and failure does not normally generate a public enquiry, (the damage caused by the Tottenham riots is an exception), but past events do have a clear and direct impact upon the future thinking and the processes that live within the entity. Those memories also derive from inside the organisation and its history as well as from sources external to the company.

The directors and managers of such companies recognise that for much of the time they operate on the lower rungs of survival of Maslow’s hierarchy and if history is ignored it is done so at their immediate peril and with a very real risk of prosecution for negligence where acting without due skill, care and diligence can be observed and where the thinking and controlling mind of the company can be identified and shown wanting. This point is evidenced in the following statements from Directors of CO1,

“But in terms to our attitude to risk, it’s changed and we are a lot less gung-ho than we used to be. We have had to be.”

“But this is where it has changed and we have had to have a few things happen to realise that we needed to change”

Memories from whatever source, for directors of small companies are within touching distance as the private sphere and the business sphere are intimate, immediate, interwoven and for owner-managers who are unincorporated, inseparable. The incentive, therefore, to take corporate governance, risk and

crisis management seriously, is considerable. Yet this is not generally the case. The conundrum is this: that despite the immediate and potentially existential impact of a major crisis in a small company, owner-managers fail to plan for such an eventuality due to denial, intellectualisation of the chances of such an event occurring and an unwavering belief in their own invincibility and coping mechanisms. All of these are misplaced beliefs. Yet, such are the pressures of commercial survival through the maintenance of production, services and sales that a rudimentary plan to counter the worst effects of a “might happen adverse event”, is relegated to a high shelf in the basement store room.

Examples of memories informing shifts in attitudes and the way risk is assessed and managed were evident in all interviews. In the case of CO1, the decision to save on costs through stacking woodchip in one single high pile resulted in a £606k uninsured bill as a consequence of internal combustion. The company now stacks woodchip in several small heaps where internal temperatures are much reduced thereby minimising the chance of a similar crisis occurring a second time. An accident many years ago resulting in death informs operating process in CO2 and its spectre haunts the corporate memory. A programme of defensive measures was subsequently undertaken and constant reminders of the consequences of a failure to adhere to strict operating guidelines are evident throughout the factory and in procedural manuals.

Procedures and Processes

In addition to internal process related to people, production, sales and finance, small companies, along with their larger counterparts are subject to a vast array of directives, regulations and laws passed at a local, national and trans-national level. Without in-house specialists in HR, legal services, tax and accountancy, health and safety and data protection (Durst and Henschel 2014a), the owner-manager is facing a barrage of requirements imposed from outside sources and failure to act in accordance with the various

requirements can have severe consequences, financial and otherwise, that affect both the directors personally and the company. Attempts such as the Red Tape Challenge promoted by the UK government in order to reduce the 21,000 regulations that are imposed on business have, however, met with limited success. Thus, argue small companies, the time spent on compliance limits the time available to engage with planning on matters such as crisis management.

Mention has been made of the impact of memories on procedures and processes as one particular driver of change. Market-driven requirements however, in the form of standards and quality protocols, have prompted individual companies and whole industrial sectors to adopt recognised standards across a range of operations.

Three of the companies taking part in this research display on the walls of their offices an array of such certifications and approvals from both government and non-government agencies, many of which are pre-requisites to their ability to function as a business. Licences to remove asbestos, permits to deal with hazardous domestic waste and export certificates were clear evidence of the influence of procedures and process emanating from external sources and then being subsumed within an internal operating process.

Disposition of owner-manager

“Beliefs and attitudes” were removed from the provisional model and in the revised model are now contained within the single overall umbrella term of “disposition” that more precisely describes a complex and inter-linked ontology and axiology on the part of the owner-manager. Disposition, defined as a person's inherent qualities of mind and character, incorporates notions of personal values, attitudes and beliefs a description of each is shown below.

Values are defined as the moral principles and beliefs or accepted standards of a person or social group. Attitudes however, concern our likes and dislikes towards things, people and objects and are evaluative responses that are a product of our values. Belief is associated with personal ontological and axiological assumptions concerning our world view and may often be founded upon either, or both, culture and religion.

The idea of owner-manager disposition and its impact upon the success of the company would appear to offer further research opportunities.

The directors interviewed as part of this study are comfortable and at ease whilst talking about the values within their business and recognise that those values are part of a wider set of ever-changing societal values. The directors are also aware that a crisis of reputation, as a consequence of a failure to live out the stated values, represents a significant threat.

The unavoidable conclusion regarding values in each of the businesses taking part in this study is that the values prevalent within the business acknowledge the values of the society in which they function, but are essentially those of the owner-manager. Those values and associated behaviours do morph over time as the business matures, but the core value stance would appear to remain consistent.

Section 3 Summarising the research findings

Within a context of small companies operating in environmental turbulence and rapidly shifting sands, the overall aim of this thesis is achieved by focusing upon the findings of an exploratory questionnaire, three theory questions and eight interview questions arising from the research purpose and the central research question, the findings of which together build on the current understanding of corporate governance, risk and crisis management in small companies.

Although the constituent elements are the subject of extensive academic research and are understood at both theory and practice levels, the literature

suggests our current understanding of the relationship between the components is limited. Accordingly, this study makes an original contribution to knowledge in that, within the cases concerned, it examines this triad. A more detailed exposition of the contribution in both theoretical and practical dimensions is contained later in this chapter.

Prior to discussing whether the overall aim is met, a reminder is provided of how the research questions are approached. Whilst the discussion of findings draws from the literatures examined in Chapter 2, further explanations are grounded in the findings presented in Chapter 6. The first of the “theory” questions designed to inform and answer the central research question is:

Q1. What do directors perceive to be the purpose of corporate governance in their company?

To address this question, several literatures are examined, and two empirical studies are conducted. In the case of extant knowledge, the current understanding of corporate governance in small companies is based on reviews of three different areas of the literature:

1. The small business/entrepreneurship literature which represents the wider context in which the study is conducted, and
2. The corporate governance literature.
3. The finance literature

Within the second and third elements, the corporate governance and finance literature, the focus of research is largely related to corporate governance in large organisations, which, whilst it offers useful insights into governance history and theory, is of limited relevance to small business. The literature is dominated by agency theory and its assumption of rational economic agents, code compliance and the performance of the board (Huse 2001; Durst and Brunhold 2017; Gabrielsson 2017). There is therefore, a yawning gap in the

literature that offers opportunities for research into the neglected area of corporate governance in small companies that comprise around 99% of businesses in the UK and elsewhere and where the implicit assumption of the separation of ownership and control is not applicable.

The second and third of the detailed questions designed to inform the central research question are:

Q2. What are the factors that link corporate governance to risk and crisis management?

Q3. How does the owner-manager's ontology and axiology affect corporate governance, risk and crises?

Hence the two further bodies of literature informing the findings in this study are:

4. The risk management literature, particularly the literature relating to risk in small businesses
5. The body of literature concerned with crisis management

Once again, the literature regarding both risk and crises is mainly concerned with the spectacular and high profile, with large organisations and incidents with wide-reaching impacts. Much of the risk management literature is positivist and is often grounded in finance whilst extant research related to corporate governance, risk and crisis management is both conceptual and empirical with data in the latter mainly collected through surveys and analysed using quantitative techniques (Gabrielsson 2017).

The crisis literature abounds with repetitive expositions of case studies of such as the Challenger spacecraft explosion, the Johnson and Johnson Tylenol poisonings, the Mann Gulch fire and the Union Carbide chemical leak at Bhopal. With few exceptions (Irvine and Anderson 2004; Runyan 2006; Budge et al. 2008; Herbane 2010, Doern 2016) the literature pays little heed

to crises in small businesses. Hence this study seeks to address a gap in our knowledge.

From the interviews conducted with the directors and owner-managers, the degrees to which corporate governance, risk and crisis management are understood and implemented are identified. The superordinate finding is that even the term *corporate governance*, let alone its practice, carries with it a mystique and a sense of that, whilst it is worthy, it is a matter nonetheless of peripheral interest when set alongside production, marketing, sales and finance. One of the respondents differs greatly from the remaining eight and does not view corporate governance as in any way peripheral. Indeed, as a result of engaging in high level study to become a Chartered Director, he sees corporate governance as the central tenet of company direction for small companies as well as large organisations.

This finding suggests therefore that there is a case for the de-mystifying of the construct that is corporate governance and highlighting its relevance to small companies. There is benefit in re-branding the concept for directors of small companies in non-patronising, non-exclusive language that promotes corporate governance as having relevance to both the future direction of the company and as sentinel, supporter and critical friend.

Corporate governance is widely perceived by the directors and owner-managers of small companies participating in this research in one of two ways; firstly, it is considered to be a means of authenticating and validating the ethical dimension of the company as a reflection of the values, beliefs and attitudes of the founder. For example, the values established in the “garage” at 367 Addison Avenue in Palo Alto, California during the genesis of Hewlett Packard still remain strong despite HP shedding the mantle of the small company many years ago.

The second perception of corporate governance by the respondents is that of a process imposed to ensure compliance with externally conceived rules and regulations. It may be argued that directors of small companies perceive

a form of dualism similar to that of Zoroastrianism where good in the form of Spenta Mainyu, the ethical dimension, exists in direct contradiction to evil in the form of Angra Mainyu, the compliance dimension.

In another example of dualistic thinking, the value added through a regime of effective corporate governance is seen at one end of the pole as a contributor to organisational success whilst the other end is seen as offering little value. Many of the participants find difficulty in responding to the question related to the value of corporate governance as their understanding of the subject is limited.

The central assumption within the revised conceptual model is that of the dominance of the owner-manager's beliefs, attitudes and values and their role in determining the corporate zeitgeist and the subsequent degree of application of corporate governance, risk and crisis management. This assumption is confirmed by the research in three of the case studies where the owner-manager is a strong personality with high energy and a driving passion for the business to succeed. Even in the one case where the owner-manager is all but retired from day to day involvement his influence is evident and his shadow is cast across the company albeit at a distance.

Outsiders such as family members, professional advisers, NEDs and shareholders who may be considered "shadow directors" are valued for their expertise. In respect of the accountant and solicitor, who are fee-earning suppliers to the company and may therefore face a conflict of interest, they too are respected for their experience and contribution. Their advice is acted upon where expertise fills the gaps that exist around uncertainty and where the Cassandra Syndrome is evident when valid warnings or concerns are dismissed or disbelieved by executives.

Although the degree of understanding and appreciation of corporate governance varies considerably amongst respondents, there is general acceptance that managing risk is an integral component of effective corporate governance. Of far greater importance however than a corporate governance

risk management policy framework in providing guidance and advice to the board are the collective and residual memories of past events where the company has suffered through both weak risk governance and contributory negligence.

Contributory negligence and omissions arise in part as a result of the limited resources that are available for crisis management planning due to time spent on core line management responsibilities such as production and sales that represent the essentials of business survival (Abu Bulgu 2005). The directors interviewed do conduct post-crisis reviews in order to change processes and procedures although there is a wider culture of ambivalence towards crises.

Cognitive Dissonance Theory (CDT) (Festinger 1957) goes some way to explain such attitudes in that the directors are fully aware that if they do not devote time and effort to crisis management planning, an unanticipated event could cause major disruption and incur significant corporate and personal cost, and may lead to the demise of the company. With the potential for serious negative outcomes for the company and its stakeholders, such ambivalence seems at odds with the fiduciary duty of a director, but CDT proposes that it is not necessarily the dissonance itself that leads to ambivalence, rather, it is the individual's construct of the given contention and a false optimism born of denial and a belief in the Shield of Achilles.

In all four cases the directors have transferred some risks through insurance. The decision is largely reliant upon the advice of a broker although in one instance a financial ceiling based upon affordability is in place as to the level of risk accepted. This relatively crude metric is the response to a cynical view of insurance and personal views concerning its efficacy. This view is encapsulated by one comment that refers to the loss-adjuster seeking to minimise the settlement sum and in so doing to enhance personal bonus payments.

For some respondents who recount the early days of the company, the phrases used to describe the prevailing attitude to crisis management

planning are “winging it” and “gung ho”. This pioneer approach to risk changes as the business matures and the level of potential loss becomes greater. The risk-taker, normally the owner-manager, develops a perspective that leans toward a risk-averse view where some planning, although not sophisticated, does take place and where reflective learning contributes to mitigation of a re-occurrence.

Business Continuity planning is widely seen as a matter of low importance founded upon a sense of repudiation and a belief that, even in the event of a crisis such as denial of access, the directors will extemporise and normal service will be resumed with relative ease. The exception to this line of thinking is that of CO2MD who has a well-constructed plan that is the subject of regular review and testing.

The overall approach however is one of reactivity and risk-taking despite, when probed, an acknowledgement of the disruption that a crisis may present in the absence of a plan, no matter how basic.

Section 4 Reflections on the philosophy and methodology used

The philosophical foundations of this study follow the statement by Howell (2013), that,

“Research involves understanding the relationship between theory, philosophy (ontology and epistemology), methodology and methods” (Howell 2013, p.32).

The ontological perspective of the author concurs with the view that the nature of reality is subjective; the epistemological stance of the author is consistent with an interpretivist philosophy and the axiological stance of the author is such that research, *ipso facto*, involves varying degrees of interaction with the phenomena being examined.

Pertaining to the nature of reality, this study incorporates a deeper fundamental philosophical position adopted by the author that reflects the

thinking of the Process Philosophy School the founder of which was the Pre-Socratic scholar Heraclitus (535bc-475bc), with his concept of the omnipresence of shifting sands, or *panta rhei* (“everything flows”) as he compared the nature of reality with the element of fire, asserting that change is reality and stability is illusion.

A second train of philosophical thought lays claim on this study, and is reflected in the Aristotelean concepts of *sophia* and *phronesis*.

“Phronesis inheres in the ability to allow for the fluid, indeterminate nature of the circumstances in which we must act, and to accept that, each time we act, we must, in a sense, start afresh.” (Shotter and Tsoukas 2014, p.240)

This study examines the notion of corporate governance, risk and crisis management via the lens of *phronesis* in a “*Lebenswelt*” – real-world setting, with all its inherent uncertainties, through an interpretive and subjective philosophy.

In the first exploratory pilot study undertaken in this particular work, five owner-managers are interviewed. Several owner-managers’ state that they have limited knowledge of corporate governance and that it is more applicable to large companies than to a small business. Yet in delving into the practices and procedures surrounding the work of the board it is evident that much of what would represent good practice in corporate governance is, in some measure, in place, though not recognised as such by the respondents.

It is concluded therefore, that one method of expanding understanding as to how small companies engage in corporate governance, and especially corporate governance and its links to risk and crisis management, is to conduct an exploratory questionnaire that would also investigate personal attitudes and beliefs in addition to gaining data as to the activities and process that take place under the general umbrella of governance.

In the subsequent main study, nine directors, of which three are owner-managers, are interviewed in order to explore and examine how, or the ways in which, corporate governance is practiced in their companies and the extent to which such practices contribute towards risk and crisis management. The focus of this research represents a significant shift from earlier research conducted the differences being that:

1. from simply identifying the functional aspects of corporate governance as measured against code requirements or an external compliance driver, this study has at its focus an examination of the attitudes, beliefs and values of the owner-manager as the core impetus leading towards whether or not there is a governance regime suited to the size and complexity of the company.
2. from perceiving risk in quantitative terms, the study examines the subjective and interpretive nature of risk assessment and management and explores its ambivalences and its likely contradictions and thus takes a subjective view of the phenomenon.
3. from focusing not upon on the legal fiction that embodies the existence of the firm as the main unit of study, to focusing upon individual directors and owner-managers together with their associated values.
4. from identifying corporate governance, risk and crisis management solely through the lens of a limited-choice list of predetermined questions, this study offers the opportunity for directors and owner-managers to reflect upon the means through which governance matters are addressed and to identify solutions to improve resilience.
5. from widespread use of quantitative analysis of corporate governance, risk and crisis management this study prefers to use interpretive phenomenological analysis to examine

meaning and value within both a personal and external context as the motivators leading to effective corporate governance.

With a sample of nine, this study does not claim theoretical generalisability. Neither does it make any claims related to the statistical generalisability of its findings, as the study, through purposive sampling, focuses on exploring the richness of a specific unit of analysis involving the context-based experiences, attitudes, beliefs and values of directors and owner-managers and the unique and intricate interplay between the researcher and the research subjects.

This research does however align itself with, 'analytical generalisation'. The objective of conducting a case study is to expand and generalise theories - known as analytical generalisation (Curtis et al. 2000) and not to enumerate frequencies (statistical generalisation) (Yin, 2003). Burns (2000), argues in relation to theory and frameworks that the framework can only ever be a momentary glimpse of reality in that such objectivity is impossible because objective reality and the subject are always in the process of what Heraclitus describes as *becoming*.

The philosophical underpinning of this study is that of assuming a standpoint allied with the school of process philosophy and a belief that in research of this nature the data reflects a moment in time and no more. Support for this notion comes from McGinn (2000) who comments that,

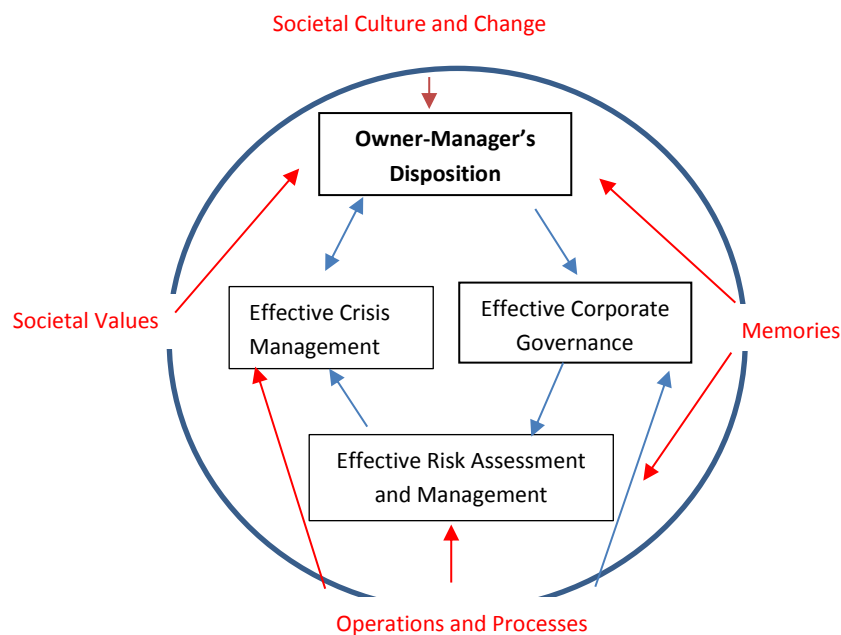
“credibility is a relative judgment taken from a particular perspective, rather than a definitive claim about the case study as a whole” (McGinn 2000, p.244).

In summary, while this research does not make any strong claims of statistical or theoretical generalisability, it is nevertheless aligned with analytical generalisation.

Section 5 The contribution of the study to knowledge

The work in connection with this thesis has led to the publication of a paper in a peer-reviewed journal and has accordingly made a contribution to the current body of knowledge, [see Spiers, L., 2017. Corporate governance, risk and crises in small companies: shedding light from inside the boardroom black box. *Economics and Business Review*, 3 (17), 112-126] Appendix 2.

This thesis also makes further contributions to knowledge in that it adds to our understanding of corporate governance and the way in which it directly affects risk and crisis management in small companies as is demonstrated in the model below. The evidence from the case studies is such that as the internal linkages show, effective corporate governance makes a positive contribution to managing risk that in turn leads to improved crisis management. The whole system is however predicated on the disposition of the owner-manager and his or her choice to champion, promote and allocate resources to this process.



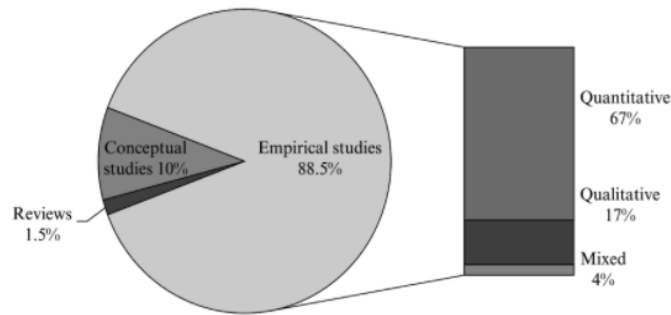
The model also shows that exogenous factors influence the owner-manager at the interface between the company and its environment and exert pressure

on the owner-manager and directors from a series of legal and collibrational drivers. There are also bestriding factors that emerge from within and beyond the boundaries of the company in the form of memories specific to the company or from memories emanating from a wider conversation.

These contributions illuminate the differences between perceptions of corporate governance and its attendant functions that are applicable to public companies rather than to small, owner-managed businesses. The focus of corporate governance in large companies centres on a compliance model at the heart of which resides shareholders and stakeholders and their relationships with those who manage the business. Such relationships do not exist in small companies and this study contributes to knowledge in that it demonstrates that one size does not fit all and that a myopic, blanket and code-based approach is irrelevant to 99.1% of all UK business. The corollary to that view is that a new corpus of literature is needed to address the development of imaginative models of corporate governance, including risk management, that are appropriate to small companies where fragility is such that the bulwark of a governance process would add resilience and thereby reduce incidences of failure.

According to McNulty et al. (2013), Zattoni et al.(2015) and Gabrielsson (2017) the majority of research into corporate governance is quantitative. This study, through its qualitative approach, adds a rich insight into the little-known activities of director disposition in small companies, and in this regard differs from the bulk of quantitative research in this area of study, see Figure 57.

Figure 57: Types of Methodological Approach



Source: Handbook of research on corporate governance and entrepreneurship (Gabrielsson 2017, p.11)

A further feature of this study is that it differs from the bulk of research into corporate governance that is conducted in public companies and large corporations. This research is undertaken in small companies and accordingly, central to this study is the owner-manager whose attitudes, beliefs and values are the impetus of corporate governance rather than codes and compliance requirements that occupy the minds of the boards of large companies.

The research finds that a high level of awareness of corporate governance processes and procedures by the owner-manager, or their proxy, together with acceptance that such mechanisms add value, lead to the introduction of a meaningful system of corporate governance. The converse is also true. The research also suggests that where formal board meetings are held there is an undercurrent of belief that such events are more of a symbolic gesture than a genuine gathering of independent directors' intent on decision-making.

UK law deems all directors as having equal status and equal responsibility for the stewardship of the company, yet it is clear from the findings of this study that a director with a significant shareholding can, and does, over-rule his or her non-shareholding counterparts. Dominant behaviours by the owner-manager present the non-shareholding director with a conundrum that carries with it profound implications and significant personal risk. The

findings of this study suggest that a version of the Cassandra syndrome, where valid warnings or concerns are dismissed or unbelievably, operates within the boards of small owner-managed companies where the principal and the agent are one and the same person and have almost unfettered power. Such limited agency on the part of non-shareholding directors, whilst still carrying legal and directorial responsibilities, can lead to internal conflict, moral distress, loss of self-esteem and acquiescence. Hence, the prevailing internal culture, ultimately derived from the owner-manager's beliefs, attitudes and values, is a key determinant in the way in which corporate governance functions in a small company.

Writing upon the issue of internal culture in organisations, Hofstede (1984) claims that in companies with a high power/distance culture those in positions seen as subordinate to the senior manager or owner-manager may be reluctant to disagree and therefore may engage in malicious compliance with decisions they find unacceptable (Hofstede and Bond 1984). In contrast, within small companies where there is a low power/distance culture, colleagues tend to be willing to disagree with the owner-manager. In addition, owner-managers in small companies with flat organisational structures actively seek out the opinions of those involved in technical specialities such as IT and view colleagues as a resource (Barney 1991) and as a repository of expertise and support. Evidence of this is seen in CO3 especially, and to a degree in CO1 and CO2.

Within all of the participating companies in this study, there is nevertheless a universal acknowledgement and acceptance that the owner-manager is the ultimate source of authority, agency and activity. In a private conversation with the author, a finance director of a small company not participating in this study, commenting on the issue of owner-manager hegemony, said that, *"It's his train set and he can play with it in whatever way he chooses"*. The "train set" analogy summarises neatly the all-pervasive influence of the owner-manager.

In small companies this pervasiveness is evident and is demonstrated where the principal and the agent are combined into one person and thus the concept of Agency Theory is rendered irrelevant in the way that it is normally considered. There is however, an internal agency arrangement that, as the previous paragraph illustrates, is not between distant shareholder and a well-informed executive but between an internal, well-informed shareholder/director and an internal, well-informed director where the balance of power resides with the former. This has implications in practice for directors of small companies and will be expanded upon in the next section of this chapter.

Small companies, as has been mentioned, face limitations on resources and accordingly systems are more prone to failure and disruption than organisations that have expertise and capital upon which to draw. Small companies frequently operate on the principle of “good enough” (Topper and Lagadec 2013) rather than with the principles of High Reliability Theory (La Porte and Consolini 1991) that seeks to address instability and vulnerability in complex systems such as those found in air traffic control, nuclear power plants and military organisations where process aberrance, human or structural failure presents significant and potentially disastrous outcomes (Smith and Elliott 2006).

In contrast to HRT, Normal Accident Theory (Perrow 1999) purports that no matter the level of input and energy designed to prevent catastrophe, the characteristics of complexity are such that, despite best efforts, failure will eventually occur at a systems level as opposed to mishaps at the more ubiquitous, workaday component level of operator error or equipment malfunction.

This raises the questions;

1. How can small companies ever attain high reliability status and are accidents and malfunctions an inevitability?

2. How can the investment in people and systems to achieve greater reliability be justified in small companies?
3. Are crises in small companies therefore subject to the vagaries of contingent leadership?

A further contribution from the literature relates to Affective Events Theory (AET) (Weiss and Beal 2005) which argues that the intensity of a negative event or some form of crisis experienced at work may lead to disassociated behaviours such as work withdrawal, absenteeism and alienation. However, corporate social responsibility (CSR), an element of corporate governance, within an appropriate corporate governance model that is not only sound in theory but is implemented with care and skill, can contribute to organisational commitment and affiliate behaviours (Meyer et al. 2002). This phenomenon may be observed using evidence from CO2 with its enlightened staff health and well-being policy including the construction of an on-site gym and counselling in personal financial management. Such thinking suggests that small companies can engage in meaningful activities that create a sense of belonging and affiliative behaviours. CO3MD likewise, sees the workforce in the company more as “family” than as employees.

Additional contributions to knowledge

In addition to the published paper mentioned earlier, other contributions to knowledge have been:

Paper given at BAM Conference, Portsmouth University, September 2015: *Corporate Governance in an SME and its contribution to crisis management planning*—awarded Best Development Paper in Corporate Governance SIG.

Paper given at BAM Workshop, University of Salford, June 2016: *A review of governance in small companies – the lived experience of the author.*

Paper given at BAM Conference, University of Newcastle, September 2016: *Director engagement in corporate governance and its contribution to risk and crisis management planning in small companies.*

Paper given at BAFA Conference, Sheffield University, December 2016:

Corporate Governance, Risk and Crisis Management Planning in Small Companies – perspectives from inside the black boxes.

Paper given at BAM Workshop, Nottingham University, June 2017,
Corporate Governance, Risk and Crises in Small Companies: shedding light from inside the boardroom black box.

Paper given at BAFA Conference, University of West of England September 2017: *Corporate Governance, Risk and Crisis Management Planning in Small Companies – perspectives from inside the black boxes*

Paper given at Research Seminar, Bournemouth University, October 2016:
Research Philosophy and its journey along the Highway of Ideas

The author has also been a guest lecturer at Bournemouth University, Portsmouth University – International Leadership Programme, The University of Kent – Entrepreneurship Module of BA Business Studies and at Poznan University, Poland – risk and crisis management on the MBA programme. Since 2016, the author has acted as Secretary to the BAM Corporate Governance Special Interest Group.

Section 6 The contribution of the study to practice.

Presentation to directors as part of the Added Value Board programme, Portsmouth University, November 2016: *Best practice Corporate Governance in a small company*

Presentation to Dorset IOD members May 2015: *Corporate Governance and the High Performing Board in Small Companies*

Keynote Paper given at ESRC Conference to directors and SME owner-managers, Coventry University, November 2016: *Corporate governance and its contribution to risk and crisis management planning in small companies.*

Presenting a Corporate Governance Ethics Programme for Directors of a Trade Organisation: April 2017

Understanding of both the concept and practice of corporate governance in small companies is important for policymakers, owner-managers and directors of such enterprises. Corporate governance policies, company law and the bulk of academic research is, however, mainly concerned with public corporations (Lane et al. 2006) and as such, small and medium sized companies, contributing over half of the UK's GDP, have tended to be marginalised and ignored (van den Heuvel et al. 2006; Huse and Zattoni 2008).

This study refers to corporate governance in small companies in terms of its meaningfulness, appropriateness and relevance (MAR), in order to highlight that to adopt a *one size fits all* approach is not the way forward. As such, neither the UK Code of Corporate Governance, nor its proposed "Version Lite", are considered as a suitable signposts or guiding protocols for small companies. This thesis may nudge the thinking of bodies such as the IOD in this regard.

Although the current codes that relate to small companies emanating from both the Institute of Directors and the British Standards Institution require revision and updating to reflect the new digital age and the virtual nature of many small companies, they also need to include templates, examples and diagnostics to facilitate the implementation of good practice. Directors of small companies need to know "how" in addition to know "about". The advantages and benefits of engagement with corporate governance practices and procedures must be also be made clear with an emphasis on the ways in which those in processes are smart and can contribute to profitability and growth rather than over-focus upon compliance and the role of corporate governance as watchman.

Policy studies concerning risk and crisis management such as that prepared by the Cabinet Office (Sterling 2011) have value in raising awareness amongst decision makers in government, but lack the practical advice and templates that small companies require with a focus on "knowing how" rather

than concentrating on “knowing about” prevails. Fast-moving small business that have unrelenting pressures of an operational nature require information to be presented in the form of the “Director Briefings” series, promoted as “a book in four pages”, that provides a topic précis and an allied “to do” list.

An output of this research that will impact upon practice is the production of three versions of a “book in four pages” aimed at small companies on the themes of corporate governance, risk and crisis management complete with supporting material such as a diagnostic tool, a sample board agenda, annual calendar of board events, minute template, and templates giving terms of reference for a board charter, crisis communication checklist and risk register examples. These copyright-free briefings will be launched through events in business organisations that support small enterprises as well as on-line through their websites. The briefings will also feature in a number of director training workshops designed for owner-managers at local venues.

The language used and the means of distribution through media will be such that practitioners will have access to information that they understand and presented in a format that is engaging and speaks a truth that has relevance.

A précis of this study will also be sent to the professional institutes and agencies dealing with small companies.

The survival rate of small companies is such that actions taken to mitigate the failure level will be of considerable benefit to owner-managers, employees, suppliers, other stakeholders and to wider society. In order to achieve greater resilience, and based upon the findings of this study together with the benefit of thirty years of board chairmanship by the author, it is recommended that the following actions should be taken by directors in order to create an effective, forward-looking board within the context of meaningful, appropriate and relevant corporate governance:

1. Review the size and composition of the board

2. Assess processes and performance against good practice

3. Consider how the board functions as a unit

1. Review the size and composition of the board

Appoint a Non-Executive Director to chair the board

Develop a director succession plan

Ensure a balance of skills and in particular finance and strategy

2. Assess processes and performance against good practice

Adopt all or part of an appropriate code of corporate governance

Prepare a written statement defining roles, responsibilities and powers

Create a mission statement, values and long term vision for the company

Clarify what the board does and what managers do

Agree the purpose, frequency, conduct and agenda for board meetings

Record decisions and keep accurate minutes

Review the external environment and initiate change

Ensure a focus on policy, strategy, compliance and accountability

Arrange a director development training and induction programme

Conduct regular board and director evaluation

Focus on customers and quality and people development

Prepare annual risk assessment and risk register

Balance risk against entrepreneurial activity

Prepare and test the crisis management and business continuity plan

Ensure insurance cover is appropriate

3. Consider how the board functions as a unit

Ensure board members share common goals

Create a climate of open debate, challenge and independent judgement

Expect full participation by all directors

Avoid groupthink and acquiescence

Communicate effectively and openly within and beyond the boardroom

In summary, the board should provide dynamic leadership and take the company purposely forward into the future bearing in mind the risks involved and taking such actions so as to manage, mitigate or transfer such risks.

Section 7 Limitations and recommendations for future research.

This study mainly focuses upon corporate governance and its contribution to risk and crisis management planning in small companies. However, it is clear that many parties contribute to and are engaged with the process of governance other than directors and owner-managers. For example, there are stakeholders such as colleagues, customers and suppliers, external advisors, family members who may or may not be shareholders, service providers such as banks, insurance brokers, consultants, trainers, accountants and solicitors all of whom support owner-managers and are tacitly involved in the wider aspects of governance and risk management.

Accordingly, there is scope for future study into corporate governance, risk and crisis management that goes beyond the boardroom and includes an expanded network of interested and related parties.

This research is cross-sectional in nature and hence it is limited to a particular time frame that does not sit well with alongside the researcher's embrace of process philosophy. A longitudinal study undertaken over a period of years using an ethnographic approach could generate useful data that would illuminate the changes and force fields occurring in both wider society and inside the case companies.

Furthermore, this study focuses mainly corporate governance and how it contributes to risk and crisis management planning without reference to performance data such as profitability, capital and cash flow. Thus, future studies could seek to answer the question as to the impact of effective corporate governance on the financial performance of small companies.

Although this study is qualitative, the exploratory questionnaire could be a useful starting point to conduct a research project of a quantitative nature using a large sample and leading to results that could be generalisable.

The study has identified factors such as dominance of personality, beliefs, attitudes and values relating to the owner-manager that have ramifications for both theory and practice. However, it has not investigated the relative importance of the factors identified. Hence, in future studies, it would be helpful to determine the impact of these factors based on an assumption that not all the factors carry equal weight.

This study is limited to small companies in the South of England. Future research could therefore be conducted in different areas and indeed in different countries both within a sector-specific context and across sectors as well as expanding the size of business to include both micro and medium sized enterprises.

Section 8 Some concluding remarks.

If academic research is to make a difference in practice to, in this instance, small companies, the research cannot remain inside the wall of the fortress and must, Janus-like, have twin perspectives. Abraham and Allio (2006) comment on this issue, stating,

“Academic research is usually communicated exclusively to its own constituency –instead of to the world of business. And the results often take years to evolve from draft to publication. (Abraham and Allio 2006 p.4)

Although this study has value to an academic audience, that value is largely limited to the seven people who will read it, including supervisors, examiners and proof readers (Spafford 2017). Hence, in order to further both *sofia* and *phronesis*, this research will be suitably summarised into a concise form and freely offered to those managing and directing small companies.

Whilst in 1776 in his work “Wealth of Nations” Adam Smith conceived the phrase, later attributed to Napoleon, “*Britain is a nation of shopkeepers*”, it still resonates today although the nature of shop-keeping and its complexity has changed dramatically. If we are to become better “shopkeepers” and create more resilient businesses, whether or not in retail, one means of doing so is the adoption of meaningful, appropriate and relevant corporate governance practices that have a *de facto* interplay with risk and crisis management planning.

Whether “corporate governance” is a fit and proper term to refer to such practices is questionable and a new nomenclature may be required to reflect the view that small businesses see themselves as neither “corporates” in the normal use of the term, nor are they institutions that necessarily require “governance” or a “governor” with all their attendant meanings and associations that reference such as schools, prisons, colonial officials and central banks. One such suggestion for a new term is the concept of “Boardroom Brilliance”!

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Appendices

Appendix 1 Key texts used in the literature review

Author	Year	Title	Publication
Aguilera, R. and Cuervo-Gazurra, A	2004	Codes of Governance Worldwide: What is the trigger?	<i>Organisation Studies</i> , 25 (3)
Alpaslan, C. et al.	2009	Corporate Governance in the Context of Crises: Towards a Stakeholder Theory of Crisis Management	<i>Journal of Contingencies & Crisis Management</i> , 17 (1)
Barney, J.,	1991	Firm Resources and Sustained Competitive Advantage	<i>Journal of Management</i> , 17 (1),
Belinskaja, L. and Velickiene, M.	2015	Business Risk Management: Features and Problems in SME Trading and Manufacturing Enterprises	<i>European Scientific Journal</i> , 2
Bennett, R. J. and Robson, P.	2004	The role of boards of directors in SMEs	<i>British Journal of Management</i> , 18 (1)
Berle, A. and Means, G.	1932	<i>The Modern Corporation and Private Property</i>	McMillan
Blackburn, R. A. et al.	2013	Small business performance: Business, strategy and owner-manager characteristics	<i>Journal of Small Business and Enterprise Development</i> , 20 (1)
Boin, A. and Lagadec, P.	2000	Preparing for the Future: Critical Challenges in Crisis Management	<i>Journal of Contingencies & Crisis Management</i> , 8 (4),
Bonnafeous-Boucher, M.	2005	Some philosophical issues in corporate governance: the role of property in stakeholder theory	<i>Corporate Governance: The international journal of business in society</i> , 5 (2)
Brustbauer, J.	2016	Enterprise risk management in SMEs: Towards a structural model	<i>International Small Business Journal</i> , 34 (1)
Cadbury, A.	1992	<i>Report of the Committee on The Financial Aspects of Corporate Governance</i>	
Cheffins, B.	2015	The Rise of Corporate Governance in the U.K.: When and Why?	ECGI
Clarke, T. and Klettner, A.	2009	Governance Issues for SMEs	<i>Journal of Business Systems, Governance and Ethics</i> , 4 (4)
Coase, R.	1937	The Nature of the Firm	<i>Economica</i> , 4 (16)
Crandall, W. et al.	2010	<i>Crisis Management in the New Strategy Landscape.</i>	Sage
Crossan, K. et al.	2015	A model analysis of internal governance for SMEs	<i>Interdisciplinary Journal of Economics and Business Law</i> , 4 (4)
Demidenko, E. and McNutt, P.	2010	The ethics of enterprise risk management as a key component of corporate governance	<i>International Journal of Social Economics</i> , 37 (10)

Doern, R.	2016	Entrepreneurship and crisis management: The experiences of small businesses during the London 2011 riots	<i>International Small Business Journal</i> , 34 (3)
Drummond, H. and Chell, E.	1994	Crisis Management in a small business	<i>Management Decision</i> .
Durst, S. and Brunold, J.	2017	Corporate Governance practices in smaller privately held businesses: insights from the Rhine Valley region	<i>Handbook of Research on Corporate Governance and Entrepreneurship</i>
Eisenhardt, K.	1989	Agency Theory: An Assessment and Review	<i>Academy of Management Review</i> , 14 (1)
Falkner, E. M. and Hiebl, M.	2015	Risk management in SMEs: a systematic review of available evidence.	<i>Journal of Risk Finance</i> , 16 (2)
Fama, E.,	1980	Agency problems and the theory of the firm	<i>Journal of Political Economy</i> , 88 (2)
Fama, E. and Jensen, M.	1983	Separation of Ownership and Control.	<i>Journal of Law and Economics</i> , 26 (2)
Fink, S.	2002	<i>Crisis management: planning for the inevitable</i>	New York
Garratt, B.	2010	<i>The Fish Rots from the Head</i>	London
González-Herrero, A. and Pratt, C.	1996	An Integrated Symmetrical Model for Crisis-Communication Management	<i>Journal of Public Relations Research</i> , 8 (2)
Gundel, S.	2005	Towards a New Typology of Crises	<i>Journal of Contingencies & Crisis Management</i> , 13 (3)
Henschel, T. et al.	2012	The practice of governance in fast growing small firms - A cross-country study	<i>International Council for Small Business. World Conference Proceedings</i> , 1
Herbane, B.	2013	Exploring Crisis Management in UK Small- and Medium-Sized Enterprises.	<i>Journal of Contingencies & Crisis Management</i> , 21 (2)
Hough, M. and Spillan, J.	2005	Crisis Planning Increasing Effectiveness, Decreasing Discomfort	<i>Journal of Business & Economics Research</i> , 3 (4)
Huse, M	2000	Boards of directors in smes: a review and research agenda	<i>Entrepreneurship & Regional Development</i> , 12
Jensen, M. C. and Meckling, W. H.	1976	Theory of the firm: Managerial behavior, agency costs and ownership structure	<i>Journal of Financial Economics</i> , 3 (4)
Kirkbride, J. and Letza, S.	2003	Establishing the Boundaries of Regulation in Corporate Governance: Is the UK Moving Toward a Process of Collibration?	<i>Business and Society Review</i> , 108 (4)
Lagadec, P.	2003	Anthrax and Beyond!	<i>Journal of Contingencies & Crisis Management</i> , 11 (3)
Letza, S. and Sun, X.	2004	Philosophical and paradoxical issues in corporate governance.	<i>International Journal of Business Governance and Ethics</i> , 1 (1)
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Corporate governance, risk and crises in small companies: shedding light from inside the boardroom black box¹

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Abstract: The extant literature consistently identifies small companies as being inherently fragile, rendering them more liable to fail than their larger counterparts in the event of a crisis occurring. This paper considers the findings of a series of interviews with directors of small companies concerning corporate governance, risk and their preparedness to manage a crisis. Current corporate governance practice adds little to the effective management of crises in small companies where a prevailing attitude of denial by directors limits meaningful actions to prevent or mitigate the consequences of unanticipated events. The paper also incorporates the observations of the author, a board chairman for over 30 years, concerning corporate governance in practice within small companies.

Keywords: corporate governance, small companies, risk, crisis management, boards of directors, non-executive directors.

JEL codes: D81, G34, M00.

Introduction

The aim of this paper is to investigate corporate governance process and practices in relation to risk and crisis management planning in small UK companies where corporate governance, of which risk management is an integral element, is, for many owner-managers a peripheral or neglected pursuit. In spite of their importance within economies across the globe, Kraus et al. (2013) conclude that small companies (those employing between 10 and 49 people) are under-researched. More specifically, others (Lampel, Bhalla, & Jha, 2014; Lewis & Mioch, 2005; Minichilli & Hansen, 2007) identify a significant gap in the literature in the related trilogy of corporate governance, risk management, and crisis planning in small companies (Herbane, 2010, 2013; Saxena & Jagota, 2015).

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However, in relation to small companies and the way in which they manage unanticipated disruptions the issue may be summarised as – owner managers feel they have more important matters to address than a “*might happen*” event at some indeterminate time in the future. Yet the preparation and testing of a plan to manage a crisis is an imperative as small companies tend to be fragile and lack the resilience of their larger counterparts and, as such, mortality rates are high.

My own experience of over thirty years, most of which has been spent in chairing the boards of small companies, suggests that there is efficacy in an appropriate corporate governance processes. Such processes should seek to engender a change in both the attitudes and actions of owner-managers and directors in addressing matters of risk and crisis management.

1. Small companies in the UK

This paper is divided into 4 sections. Section 1 offers an overview of the prevalence and diverse nature of small companies in the UK and suggests that due to resource scarcity small companies are especially fragile. Consequently, they are limited in their response capabilities when faced with an unanticipated event that challenges a delicate equilibrium.

Section 2 addresses corporate governance in small companies and considers its application in practice and its perception of value by owner-managers. Section 3 explores how small companies view risk and the potential threat that a crisis might bring about. The section also proposes a model to demonstrate the relationship between corporate governance, risk and crisis management. Section 4 contains the reflections of the author, a director of over thirty years, mostly within small companies, on the internal dynamics of boards inside the “black box” that is the boardroom.

Figure 1 shows that small businesses in the UK are not only of importance in terms of their sheer number, but they are a significant source of employment, revenue generation and subsequent tax contribution as well as being viewed as a force for good within communities (Kelley, Singer, & Herrington, 2015).

The definition of a small business varies across jurisdictions and accordingly Berisha and Pula (2015) and Di Tommaso and Dubbini (2000) both concur that the typology is not a scientific division based on macroeconomic indicators, but rather a statistical arbitrariness. The UK Government’s definition of a small company has employment as its key criteria and includes those entities employing between 10 and 49 staff. Yet, irrespective of headcount, small companies tends to be fragile and lacking in resilience (Drummond & Chell, 1994). Accordingly, few of these fragile small companies trading in an environment of complexity grow and develop to become medium-sized companies (Crossan, Pershina, & Henschel, 2015; Perrow, 1999; Santana, 1997) thereby limiting prosperity and economic activity.

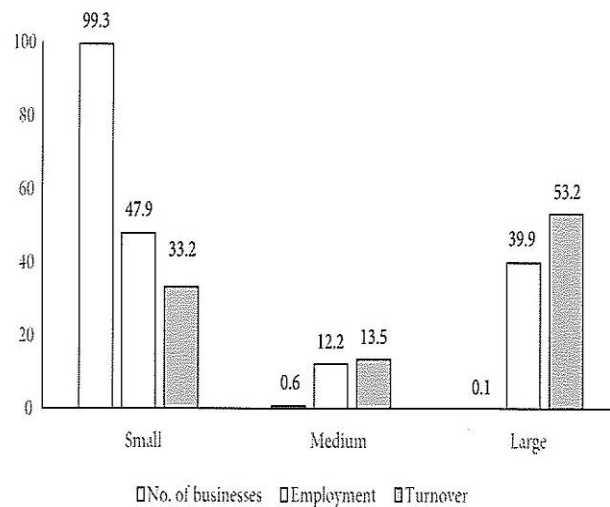


Figure 1. Share of businesses in the UK private sector and their associated employment and turnover, by size of businesses, start of 2014 (in %)

Source: Department of Business, Innovation and Skills: Business population estimates for the UK and regions 2014

In a small company, the consequences of fragility may lead to severe business interruption or, at worst, failure, and extends beyond the commercial sphere to affect directly owner-managers in terms of their domestic, personal, social and personal financial affairs. Bodmer and Vaughan point out that,

Close relations between the entrepreneurial and the private sphere of the entrepreneur's life are usual and can be an additional source for crisis emergence (e.g. the threat of a divorce) (Bodmer & Vaughan, 2009, p. 41).

Similarly, in Doern's 2016 study of the effect of the 2011 London riots upon small companies she found that,

The impact of a crisis on small companies may be particularly great because of the personal impact on owner-managers and their lack of preparedness and resources making them more vulnerable (Doern, 2016, p. 276).

In order to deal with the ubiquitous issue of fragility, Brenes, Madrigal, and Reguena (2011) suggest that owner-managers of small companies could adopt appropriate, relevant and meaningful corporate governance processes and systems in order to improve the way in which risk and crises are managed. Corporate governance therefore takes assumes the twin mantles of sentinel and watchman.

2. Corporate governance in small companies

Corporate governance was defined by Cadbury (1992) as “the system by which companies are directed and controlled”. In a contrasting view, Durst and Henschel (2014) argue for an alternative definition of corporate governance that is not universal in its application but is apposite to small companies. They highlight the danger of using approaches to governance developed primarily for large corporations that are centred upon agency theory, disclosure, reporting and dispersed ownership; concepts and practises which have limited relevance to small businesses (Ansong, 2013). Durst and Henschel propose a definition of corporate governance in small companies as a system that has management and strategy at its foci and,

involves the structures, processes and relationships with relevant stakeholders that help owner-managed firms not only to control the firm but also to facilitate strategic change (Durst & Henschel, 2014, p. 18).

However, other researchers (Clarke & Klettner, 2009; Uhlaner, Wright, & Huse, 2007) state that directors of small companies view corporate governance, the context in which planning and control occurs, as being of limited importance or relevance when compared with the imperatives related to survival. Crossan et al. (2015) emphasise that a lack of governance within small companies that is a contributory factor in business failure stating,

many of these failures can be mitigated by the introduction of robust governance structures that would potential[ly] provide better planning and management structures (Crossan et al., 2015, p. 3).

Expressing a similarly strong opinion, Saxena and Jagota (2015) believe that “governance is critical for smaller firms” (Saxena & Jagota, 2015, p. 55).

Nonetheless, it would appear that, in spite of the potentially damaging consequences, many owner-managers fail to act upon an issue that links weak or non-existent governance with business decline and mortality. In seeking to explain this conundrum, Acs, Carlsson, and Thurik (1996) cite Winston Churchill and use a phrase from a speech given in 1939 when they choose to liken small companies to a “a riddle wrapped in a mystery inside an enigma” and in so doing reveal the heterogeneous nature of governance in small companies.

Audretsch and Lehmann (2011) and Lane, Astrachan, Keyt, and McMillan (2006) maintain that there is comparatively little research into corporate governance in small companies, and in particular, into the effect of codes of corporate governance within small companies. They state that such codes, whilst not offering a panacea, could serve as the basis upon which to create a more resilient company and could help small companies to withstand the shock that is likely to occur (Mitroff & Anagnos, 2000). Nevertheless, there is a problem in

that *The UK Code of Corporate Governance*, predominantly designed for large companies, has had limited relevance to the governance needs of small companies (Abu-Bulgu, 2007; Saxena & Jagota, 2015).

Taking up the theme of relevance, Lane et al. (2006) argue convincingly that it would be inappropriate for small companies to adopt a corporate governance code designed for listed businesses that would incur a burdensome and bureaucratic overhead. Clarke and Klettner (2009) support this view and see most of the current corporate governance codes as being a case of overkill for small companies. Furthermore, Gibson, Vozikis and Weaver (2013) and Torres and Julien (2005) caution that there are consequences of ignoring the differences between small companies and listed businesses when considering matters of corporate governance due to the contextual variations and the economic inefficiencies that may be generated. They conclude that it is not a case of "one size fits all".

In spite of limited awareness and widespread antipathy towards corporate governance by directors of small companies (Crossan et al., 2015; Lane et al., 2006), since 2010 the Institute of Directors (IOD) has been active in promoting and encouraging the boards of small companies to adopt a form of corporate governance that it claims is both meaningful and relevant to the small company. Following consultation with unlisted companies across Europe through the European Confederation of Director Associations (ECoDA), the IOD concluded, that smaller companies -- "would benefit from their own corporate governance code" (Barker, 2008, p. 8). Echoing the views of Uhlener et al. (2007) in the foreword to the IOD code for unlisted companies, the director general of the IOD states that,

the IOD is convinced that appropriate corporate governance practices can contribute to the success of UK companies of all types and sizes, including those that are unlisted or privately held (Institute of Directors, 2010, p. 5).

However, despite a fanfare launch of the IOD Principles, little is known as to the up-take of this code of corporate governance either prior to or since the launch of *Corporate Governance Guidance and Principles for Unlisted Companies in the UK* in 2010 (Barker, 2014). Accordingly, this may offer an opportunity for further research.

3. Risk and crisis management planning in small companies

Risk oversight is a universal requirement in corporate governance codes across the globe (European Corporate Governance Institute, 2015) and calls for a pro-active approach by boards of directors towards risk in all its guises.

Echoing this governance imperative, Ansong (2013) states unequivocally that “Corporate governance and risk management are interrelated and interdependent” (Ansong, 2013, p. 160) whilst Mahzan and Yan (2014) posit that,

[small] companies may achieve strategic, tactical and operational efficiency by embracing good corporate governance principles which include risk management and controls mechanism (Mahzan & Yan, 2014, p. 156).

The link between corporate governance and risk is evident in the most recent update of the so-called Turnbull Report, first published in 1999. Although aimed primarily at larger companies, the UK Financial Reporting Council recommend all companies to engage positively with governance processes and procedures related to risk management. The report expresses a principle of universality when it states,

the board has ultimate responsibility for risk management and internal control, including for the determination of the nature and extent of the principal risks it is willing to take to achieve its strategic objectives and for ensuring that an appropriate culture has been embedded throughout the organisation (Financial Reporting Council, 2014, p. 3).

Although the Turnbull Report focussed upon large corporates, Jones (2009) stresses the importance of risk and crisis management planning in small companies. Referring to small companies in the USA, Jones points out that the average life expectancy is about five years. Jones concludes that a structured approach to risk management would extend the company's lifespan considerably. Expressing a similar view of small companies in the UK, the RSA Insurance report “*Growing Pains*” reflects the situation described by Jones and states that “in the UK the majority (55%) of new businesses don't survive beyond five years” (RSA Insurance, 2014, p. 7). This research does however cover all business types and legal structures and includes micro businesses and sole traders.

Similarly, the point made in the RSA report, a UK Government briefing document reveals concern regarding the fragility of SMEs. The report offers advice on the subject of disaster prevention and post-crisis management following an observation that around half of all companies experiencing a disaster and which have no effective plans for recovery fail within the following 12 months (UK Government, 2006). The report proposes that appropriate elements of corporate governance such as enterprise risk management would mitigate the impact and effects of a crisis. That view is supported by The Casualty Actuarial Society Enterprise Risk Committee whose 2003 report describes the pressure of corporate governance upon risk management as being “fundamental and enduring” (Casualty Actuarial Society, 2003, p. 102).

Further, undated evidence from the website of a UK charity, The Cross Sector Safety and Communications Partnership (2014), asserts that commercial fire losses are on the rise and that 85% of small companies suffering a serious fire without a recovery plan close or cease trading within 8 months. Spillan and Hough (2003) cite Pedone (Pedone, 1997) who states that 90% of companies without a plan for recovery will fail within two years post crisis.

Given the weight of evidence as to the consequences of a failure to engage in risk management processes Mitroff and Anagnos (2000) posit that company directors tend to be in a state of denial concerning the likelihood of a crisis event occurring. Atherton (2003) finds that owner-managers have a widely held fatalistic perception regarding externally driven events and influences that may directly impact upon the company and about which they can do little to counteract.

Those impacts, the literature concludes, are such that small companies are disproportionately affected by a crisis than are larger, resource rich enterprises (Corey & Deitch, 2011; Doern, 2016). Despite directors of small companies acknowledging their vulnerability, small companies tend not to have formalised crisis management planning processes (Runyan (2006). Yet, when managers take a pro-active approach to crisis management planning, both crisis prevention and post-crisis survival rates are improved (Conant & White, 1999; Fink 2002; Spillan & Hough, 2003; Vargo, 2011). Chrisman (2013) adds that family firms in particular tend to have better survival rates compared with non-family firms due to greater social capital, low agency costs and greater efficiency.

In summary, the literature finds that corporate governance, risk and crisis management are interconnected phenomena and that, concerning implementation, it is the beliefs and attitudes of the owner manager that are critical (Feltham, Feltham, & Barnett, 2005; Van Gils, 2005). However, management in small companies tends towards a reactionary posture (Budge, Irvine, & Smith, 2008) as a consequence of resource scarcity, (Aleksić, Stefanović, Arsovski, & Tadić, 2013; Brustbauer, 2016) ineffectual planning (Corey and Deitch 2011); limited business skills (Minichilli & Hansen, 2007) and flimsy corporate governance (Faghfour, 2015; Herbane, 2010; Ricketts-Gaskill, Van Aukun, & Manning, 1993). Finally, when considering risk and the possibility of a crisis event, it is a posture of denial and "head in the sand" that prevails (Spillan, 2001) citing (Mitroff, 1989).

Figure 2 demonstrates the linkages between effective and appropriate governance, risk and crisis management within a small company as a partial loop system that lies within an organisational context that acknowledges the influence of culture, operating methods, values and history. However, according to Van Gils (2005) and Feltham et al. (2005), the central driver is the beliefs and attitudes of the owner-manager.

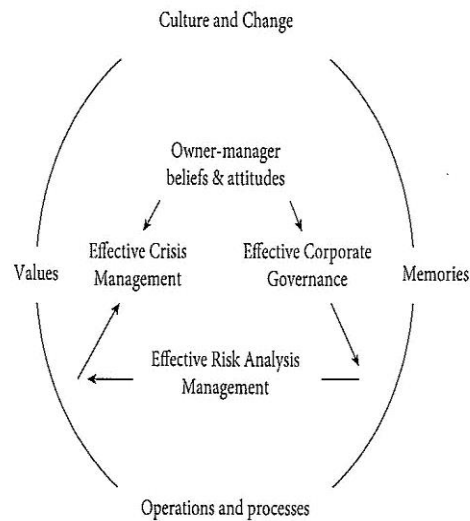


Figure 2. The context and relationships between corporate governance, risk and crisis management

Source: Own work

4. Personal observations

The next section of this paper contains reflections and observations based upon some thirty years of service as a director on the boards of large, medium and small companies across a range of sectors. The vast majority of which were small companies. From my observations there is a distribution of companies with a range of profiles where the high-performing board is the exception and at the very tip of the tail of the distribution with the remainder operating at various degrees of poor practice in both corporate governance and management.

In order to establish criteria against which to assess the performance of boards in small companies I have adopted a baseline from The British Standards Institution's (BSI) publication BS 13500:2013 entitled "*Code of practice for delivering effective governance of organizations*". The reasons for this choice relate to the code's focus upon practical application to small companies and the abundance of examples, checklists and templates contained within the guide. This code has been the subject of wide consultation and discussion in the design stage. It tacitly acknowledges that there are barriers that hinder the acquisition of knowledge and understanding that impact upon the implementation of innovative corporate governance processes. By implication, it further recognises that corporate governance and directors of small companies are not

comfortable bedfellows. There is very limited research into corporate governance in small companies and what research there is tends not to be well communicated to directors in small companies. Abraham and Allio (2006) would appear to agree with this view stating that,

research is not designed with managers' needs in mind, nor is it communicated in the journals they read...For the most part it has become a self-referential closed system [irrelevant to] corporate performance (Abraham & Allio, 2006, p. 8).

BS 13500 offers practical advice on the matter of corporate governance practice in small companies. Within BS 13500, Annex D, for example, contains a Self-Assessment Checklist that assists and guides directors in determining what is required in order to implement a governance system appropriate to the needs of a small company. Under headings of systems, accountability, direction and control, BS13500 outlines what the BSI consider the actions necessary to conform to the standard. This differs from the IOD's somewhat discursive approach and is an action-based resource that is easy to understand, to implement and to evaluate.

From my observations over many years, the most critically important point to good corporate governance and good management is a culture of learning and openness to change at all levels. This positive culture will then cascade down the company and lead to strong and positive risk management practice. Whilst the checklists and the procedural matters are most useful in establishing a corporate governance regime, it is the attitudes, values and beliefs of owner-managers and directors that are the foundation stones of effective corporate governance. Furthermore, it is the ability and desire of those key actors to move away from a pre-occupation with the immediate and the urgent, even if only for a relatively a short period, in order to develop a regime that has strategy, risk, accountability and policy formulation at its base. And while the outcome of this focused policy is unlikely to be the full corporate business model with a five-year time horizon and backed with sensitivity analyses, the resulting model should, nevertheless, have regard to a timeframe that is strategic in nature yet remaining flexible and responsive to emergent events.

Based upon the BS 13500 checklist, copies of board minutes and a personal diary, I have used word search and simplified thematic analysis to illustrate director attitudes and beliefs concerning corporate governance, risk and crisis management planning in small companies. From this analysis eight themes have emerged independent of the level of engagement and the standards of corporate governance adopted by the respective boards.

The first and overarching theme is that corporate governance is a matter of peripheral concern to directors of small companies. Corporate governance is however, recognised as being of importance but is not perceived as a high priority matter on which valuable time and resources should be spent. Corporate

governance attracts immediate additional costs where the associated benefits accruing are unclear or, at best, will only to be realised at some time in the future. Corporate governance, beyond that prescribed by the law, is not considered a pressing need but a process that adds another layer to an already burdensome bureaucracy. In summary, corporate governance is an “ok to have” but not “a must have”.

The second theme that emerges is that corporate governance is a function of size and assumes greater importance as the company increases its capital through wider shareholding beyond the founders. Allied to this, an associated driver towards engagement in corporate governance emanates from customers seeking legitimacy in their supply chain through assurances on matters of corporate governance alongside other quality standard markers.

Theme number three accepts that corporate governance has cosmetic value and can be a valuable tool for PR purposes. An independent NED in the role of chairman of the board can add credibility in the eyes of internal and external stakeholders. Although, NEDs in small companies are an expensive item, the appointment of an NED can tilt a board of directors away from an agenda that is largely operational towards the adoption of a strategic posture that inculcates a longer-term vision concerning the future of the business. The decision to appoint an NED suggests directors and shareholders are however positively disposed towards the adoption of a corporate governance model of one form or another.

In spite of a contract that specifies the duties and time commitment of an NED, owner managers tend to have an unrealistic expectation as to what a NED can achieve in one or two days per month. In small, bordering micro, companies the realisation that the cost of one day's work by an NED often equates to greater than a week's wages for an operative tends to lead to a significant reduction in interest in the appointment of an NED.

The fifth theme that emerges is that directors often perceive corporate governance as a matter for the company secretary or external accountants. Directors frequently believe that corporate governance is mostly concerned with administrative processes related to the board such as the compilation and distribution of agendas, reports, minutes and other matters related to internal and external compliance.

The sixth theme addresses director attitudes towards risk in the context of sound corporate governance practices. Directors tend to view risk through a narrow prism in terms of health and safety operations, sales, and finance. There is an unfounded belief that risk transfer through insurance cover provides adequate protection. This view concurs with the findings of Simbo (1993).

Theme number seven suggests that the prevalent attitude of directors is one of crisis denial - *crises happen to other companies – not to us*. Boards overestimate and overstate their coping mechanisms believing that if a crisis occurred it could be easily managed and contained. It is also clear that within small

companies there is limited internal capacity or knowledge to resource, create, monitor and test a crisis management plan.

The final theme relates to the owners' values. The beliefs, attitudes and values of the owner-manager are the key factor in the perception and adoption of an appropriate corporate governance model. In so embracing, the owner manager is ceding, *ipso facto*, a measure of control and influence and by extension, is acknowledging a dilution of personal power. For most owner managers this step across the Rubicon requires a fundamental shift of thinking.

Conclusions

Scholars have referred to the boardroom as a black box that normally remains securely locked, and accordingly qualitative research is rare with quantitative papers dominating and seeking to compare such as duality and board size with performance. Access restrictions are a significant barrier to those wishing to conduct research into the complex dynamics that prevail in every boardroom and which this paper maintains is a critical element in the way in which small companies control and manage their business affairs.

The complexity and exposure involved in business in the 21st century in the UK and elsewhere demands a rethinking of corporate governance in small companies. The boards of small companies require a clear understanding of how appropriate corporate governance processes can contribute to their success. Within small companies, greater emphasis on the role of corporate governance as the "pilot" rather than the "custodian" is likely to encourage greater engagement. Likewise, there is a requirement to reduce the bureaucratic burden and to see corporate governance as the creation of a point of difference and a source of value acknowledged by all stakeholders. To achieve this, corporate governance therefore has to be meaningful, appropriate, relevant and then recognised by stakeholders as an added-value component within both structure and practice.

Shakespeare, in *Romeo and Juliet* asked, "What's in a name?" albeit not in the context of corporate governance. My conversations with owner-managers suggest that the term "corporate governance" carries with it connotations that are largely negative. An Encarta synonym search of the two words reveals firstly, "relating to a corporation", "relating to a group", "designed for or suitable or associated with people who work for large corporations" and secondly "control or authority", "the act or state of governing a place". Whilst the term corporate governance may be well suited to large organisations there is, I believe, scope to develop a more relevant and user-friendly nomenclature with which small companies can identify and relate.

Even the smallest of UK companies engage with both real and virtual networks that operate ceaselessly in a global context across time zones allowing

them to serve customers and create profits. More than ever those complex and rapidly changing circumstances call for organisational resilience as uncertainty, exposure and the effects of close-coupled systems become the normal parameters of trade and enterprise. Again, meaningful, appropriate and relevant corporate governance can contribute to this resilience.

Small companies that choose to appoint outside directors in a non-executive capacity are by implication, frequently looking for an agent to challenge the status quo and create that point of difference that speaks to customers and suppliers alike. The anticipated outcome of an NED appointment is one of tacit assurance of a big, small company (Torres & Julien, 2005) and one that improves its chances of withstanding the misfortunes that are likely to occur.

Seen through the personal experience of the author, it appears that owner managers of small companies have a desire to manage their business to a high standard and in so doing to protect their personal circumstances. Although bodies such as the IOD recognise that appropriate and value-based corporate governance is a means through which this might be achieved, there is nevertheless a prevailing level of cynicism that dilutes the willingness to engage with the processes of corporate governance. It is therefore incumbent upon both scholars and those in the field to make the case and to communicate it in appropriate language and via appropriate channels.

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Appendix 3 Ethical Approval Notice

Researcher Details

Project Details

Reference Id 13817

Status Approved

Date Approved 19/07/2017

Name Leslie Spiers

School Business School

Status Postgraduate Research (M Res, M Phil, PhD, D Prof, D Eng.)

Course Postgraduate Research

Have you received external funding to support this research project?

No

Title Governance, Risk and Crisis Management Planning in Small Companies

Proposed Start Date of Data Collection

04/01/2017

Proposed End Date of Project

30/04/2017

Supervisor Steve Letza

Approver Elvira Bolat

Appendix 4 Key journals searched

Sources of information from Journals

Primary Field/Title <i>Small Business</i>	<2000	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Total	ABS Ranking
Small Business Economics									3										3	3
Journal of Small Business Management	3		1			1	1	1	4								3		14	3
Journal of Small Business and Enterprise Development															1			1	2	2
International Small Business Journal		1			1	1	1					1	1		1		2	1	10	3
Small Enterprise Research															1				1	
Journal of Small Business and Enterprise Research	1																		1	
Int. Journal of Entrepreneurship and Small Business										1		1				1			3	
Journal of Entrepreneurial Finance	2																		2	
Family Business										1					2	1	2		6	
Family Business Review	1					1		1		1									4	3
American Journal of Small Business	1																		1	

<i>Corporate Governance</i>	Pre 2000	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Total	ABS Ranking
Corporate Governance	2								1										3	
Corporate Governance: An International Review	1					1	2	1					2		2	1			10	3
Indian Journal of Corporate Governance																	1		1	
International Journal of Law & Management										1				1					2	
Journal of Management and Governance									2					1	1				4	1
Corporate Governance: The International Journal of Effective Board Performance									1							1	1		3	
Journal of Business Systems, Governance and Ethics											1	1	2		1	1			6	
International Journal of Business Governance & Ethics									2										2	2
Corporate Reputation Review									1										1	1
Stanford Law Review																1			1	
Corporate Governance Advisor					1								1						2	
International Journal of Management Reviews													1	1					2	3
Journal of Business Ethics			1					1					1	2	1	1	1		8	3
International Journal of Disclosure & Governance														1	1				2	
Journal of Business Research													1			1			2	3

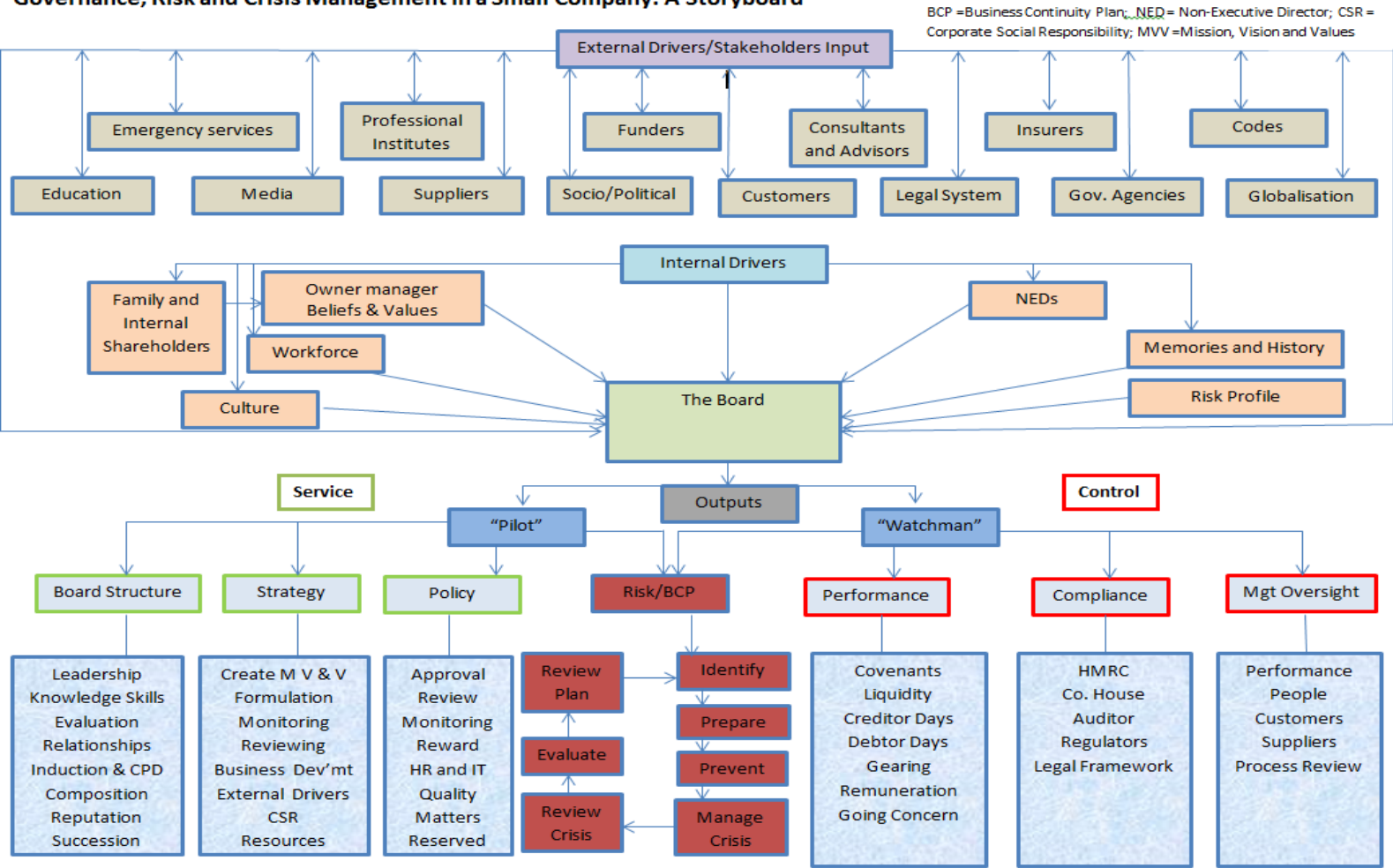
International Journal of Innovation & Technology Management																1			1	
Journal of Corporate Accounting & Finance															1				1	
Journal of Corporate Citizenship									1										1	1
Journal of Management & Governance								2						1	1				4	1
Academy of Management Review	3				1		1												5	4*

Primary Field/ Journal Title	Pre 2000	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Total	ABS Ranking
<i>Risk & Crisis Management</i>																				
Journal of Contingencies & Crisis Management	1	1	1	1			2	3	2	1	1		2		3	3	1		22	
Management Decision								3											3	2
Technological forecasting and social change	2																		2	3
International Journal of Business Excellence ¹														1					1	
International Journal of Entrepreneurial Venturing ¹															1				1	
International Journal of Entrepreneurship & Small Business										1		1				1			3	
Journal of Accountancy				1				1											2	
Journal of Applied Corporate Finance											1								1	
Journal of Business Chemistry															1				1	
Journal of Business Communications							1												1	
Journal of Communication Management					1			1											2	
Journal of Neuroscience, Psychology, & Economics											1								1	
Journal of Public Relations Research	1																		1	
Journal of Services Marketing							2												2	2
Journal of Technology Management & Innovation															2				1	

Safety & Security in Tourism					1														1	
Tourism & Hospitality Research								1											1	
Business Continuity Journal														2					2	
Journal of Business Continuity and Emergency Planning													1						1	
Disaster Prevention & Management	1				1									1				1		4
Disaster Prevention and Management: An International Journal	1										1									2
Total	20	2	3	2	6	0	10	13	18	8	5	3	12	11	19	13	1	0	119	

Appendix 5 Storyboard

Governance, Risk and Crisis Management in a Small Company: A Storyboard



Appendix 6 Author scores on “Heightening Your Awareness of Research Philosophy” (HARP) Saunders and Bristow (2015)

Heightening your Awareness of your Research Philosophy (HARP)*

HARP is a reflexive tool that has been designed by Bristow and Saunders to help you explore your research philosophy. It is just a starting point for enabling you to ask yourself more refined questions about how you see research. It will not provide you with a definitive answer to the question “What is my research philosophy?” Rather it will give you an indication as to where your views are similar to and different from those of five major philosophical traditions discussed in this chapter. Do not be surprised if your views are similar to more than one tradition. Such potential tensions are an ideal opportunity to inquire into and examine your beliefs further.

HARP consists of six sections each comprising five statements (a total of 30 statements). Each section considers one aspect of philosophical beliefs (ontology, epistemology, axiology, purpose of research, meaningfulness of data, and structure/agency). Each statement epitomises a particular research philosophy's position in relation to that particular aspect. By indicating your agreement or disagreement with each statement you can discover your similarities and differences with different aspects of each research philosophy. Following the completion of HARP, refer to the scoring key to calculate your score and interpret your answer.

HARP		Strongly Agree	Agree	Slightly Agree	Slightly Disagree	Disagree	Strongly Disagree
Statements							
Please indicate your agreement or disagreement with the statements below. There are no wrong answers.							
Your views on the nature of reality (ontology)							
1	Organisations are real, just like physical objects	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
2	Events in organisations are caused by deeper, underlying mechanisms.	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3	The social world we inhabit is a world of multiple meanings, interpretations and realities.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4	'Organisation' is not a solid and static thing but a flux of collective processes and practices.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5	'Real' aspects of organisations are those that impact on organisational practices.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Your views on knowledge and what constitutes acceptable knowledge (epistemology)							
6	Organizational research should provide scientific, objective, accurate and valid explanations of how the organizational world really works.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
7	Theories and concepts never offer completely certain knowledge, but researchers can use rational thought to decide which theories and concepts are better than others.	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
8	Concepts and theories are too simplistic to capture the full richness of the world.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
9	What generally counts as 'real', 'true' and 'valid' is determined by politically dominant points of view.	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
10	Acceptable knowledge is that which enables things to be done successfully.	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Your views on the role of values in research (axiology)							
11	Researchers' values and beliefs must be excluded from the research.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
12	Researchers must try to be as objective and realistic as they can.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
13	Researchers' values and beliefs are key to their interpretations of the social world.	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
14	Researchers should openly and critically discuss their own values and beliefs.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

15	Research shapes and is shaped by what the researcher believes and doubts.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Your views on the purpose of research							
16	The purpose of research is to discover facts and regularities, and predict future events.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
17	The purpose of organisational research is to offer an explanation of how and why organisations and societies are structured.	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
18	The purpose of research is to create new understandings that allow people to see the world in new ways.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
19	The purpose of research is to examine and question the power relations that sustain conventional thinking and practices.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
20	The purpose of research is to solve problems and improve future practice.	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Your views on what constitutes meaningful data							
21	Things that cannot be measured have no meaning for the purposes of research.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
22	Organisational theories and findings should be evaluated in terms of their explanatory power of the causes of organisational behaviour.	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
23	To be meaningful, research must include participants' own interpretations of their experiences, as well as researchers' interpretations.	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
24	Absences and silences in the world around us are at least as important as what is prominent and obvious.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
25	Meaning emerges out of our practical, experimental and critical engagement with the world.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Your views on the nature of structure and agency							
26	Human behaviour is determined by natural forces.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
27	People's choices and actions are always limited by the social norms, rules and traditions in which they are located.	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
28	Individuals' meaning-making is always specific to their experiences, culture and history.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
29	Structure, order and form are human constructions.	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
30	People can use routines and customs creatively to instigate innovation and change.	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Now please complete the scoring key below.

Your Answer Scores

Give yourself the points as indicated above for each answer within each philosophical tradition. The different philosophies are represented by specific questions in the HARP as indicated below. Fill each philosophy table with your answer scores, then total up the numbers for each philosophy. (For your reference, in the tables below the letters in brackets indicate that the question tests your agreement with the ontological (ont), epistemological (epi), axiological (axi), purpose of research (p res), meaningfulness of data (m dat), and structure and agency (s/a) aspects of research philosophy.

Each answer you gave is given a number of points as shown in the table below:

Strongly agree	Agree	Slightly agree	Slightly disagree	Disagree	Strongly disagree
3	2	1	-1	-2	-3

Positivism: Questions 1, 6, 11, 16, 21, 26

Question	1 (ont)	6 (epi)	11 (axi)	16 (p res)	21 (m dat)	26 (s/a)	Total
Answer score	-2	-2	-3	-3	-3	-1	-14

Critical Realism: Questions 2, 7, 12, 17, 22, 27

Question	2 (ont)	7 (epi)	12 (axi)	17 (p res)	22 (m dat)	27 (s/a)	Total
Answer score	2	2	-3	1	1	2	5

Interpretivism: Questions 3, 8, 13, 18, 23, 28

Question	3 (ont)	8 (epi)	13 (axi)	18 (p res)	23 (m dat)	28 (s/a)	Total
Answer score	3	3	2	3	2	3	16

Poststructuralism/postmodernism: Questions 4, 9, 14, 19, 24, 29

Question	4 (ont)	9 (epi)	14 (axi)	19 (p res)	24 (m dat)	29 (s/a)	Total
Answer score	3	2	3	-2	3	2	11

Pragmatism: Questions 5, 10, 15, 20, 25, 30

Question	5 (ont)	10 (epi)	15 (axi)	20 (p res)	25 (m dat)	30 (s/a)	Total
Answer score	-2	2	3	2	-2	2	5

Reflection

Now, for the first of what will almost certainly be many philosophical reflections, consider the following questions regarding how you scored yourself:

1. Do you have an outright philosophical winner? Or do you have a close contention between two or more philosophies? Why do you think this is?
2. Which philosophy do you disagree with the most? Why do you think this is?

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[The diagnostic shows a clear preference of +16 for an interpretivist research philosophy.

Appendix 7 Research Protocol

“Corporate Governance and its contribution to risk and crisis management in small companies”

Researcher: Leslie Spiers

Supervisors: Professor Steve Letza and Associate Professor Donald Nordberg

Faculty of Management Bournemouth University

1. Introduction / Background

Despite the number and disparity of small companies and their productive contribution to the economy, there is comparatively little research into corporate governance in this sector (Lane et al. 2006; Uhlaner et al. 2007b; Siebels and zu Knyphausen-Aufseß 2012; Saxena and Jagota 2015). Lane et al (2006) go on to claim that not only is there a general lack of research into small companies but that, in particular, there is also a paucity of research relating to the usage and application of codes of governance within small companies (Lane et al. 2006).

Few studies have been completed that examine the workings of boards of directors in small companies (Voordeckers et al. 2014; Ponomareva and Ahlberg 2016) and the manner in which the principles of corporate governance and the actions related to risk and crisis management that arise therefrom are applied in practice (Huse 2000; Lynall et al. 2003b).

The evidence that emerges from the literature has been central in the development of the research question. That evidence points unambiguously towards a widespread failure in small companies to introduce an appropriate governance regime; to analyse, consider and take preventative actions to minimise the risks faced and to prepare and test a crisis management plan (Gerber and Feldman 2002; Hough and Spillan 2005b; Budge et al. 2008b; Herbane 2013a).

This research using multiple case-studies, seeks to discover the contribution of appropriate corporate governance towards effective risk and crisis management planning in small companies.

The research will contribute to the body of knowledge in that it addresses a gap relating to governance and its relationship to risk and crisis management planning in small companies and proposes means by which improved practice can result in added resilience, longevity and success of the enterprise

In structuring this research therefore, I recognise that context and temporality are significant determinants in what may be thought of as a rheostat where output is contingent upon impedance. Hence I am seeking to delve into how we can understand the emergence of apparently novel conditions of which a crisis represents a highly significant element of “what is coming about”.

Data Management

All data will be coded so as to protect the identity of both companies and individual respondents. Case records will be stored on a password controlled electronic file system and hard copy such as transcriptions will be stored in a locked unit at Bournemouth University.

A database will be created to code and analyse responses

Objectives

The principal objective of this case-study research is to obtain evidence concerning the means by which corporate governance contributes to risk and crisis management planning using a series of semi-structured interviews that will enable the respondents the opportunity of supplying information on a wide range of relevant issues related to the research topic.

Based upon the literature, my a priori assumption is that the small companies managed by the respondents will tend to have weak governance arrangements that are essentially pre-liminal; will have an unstructured approach to risk and will have failed to create and test a meaningful crisis management plan. I am further assuming that the linkages between governing, risk and crisis management planning will, likewise, be somewhat tenuous.

Background information will be gleaned by means of an exploratory questionnaire to be completed by directors in the respondent companies. This will be followed by a series of a semi-structured interviews as part of a case study approach. This approach is consistent with my ontological perspective, my research methodology and my research method. I draw upon Silverman (2015) who said that the interviewer is seeking to generate data which give an authentic insight into the experiences of the various critical actors within the unit of analysis (Silverman 2015). Whilst it is the intention to allow a significant degree of freedom to respondents regarding the way in which they answer the questions, the interviewer will nevertheless use a guide to ensure that there is a focus and to prompt if required.

The questions are exploratory in nature and are open-ended. The bases of my questions emanate from a number of relevant theories and a model of governance excellence for small enterprises including those devised and promoted by the European Confederation of Director Organisations and The International Finance Corporation (IFC), part of the World Bank, to assess the standards of governance policy and practices prior to a decision by the bank to invest in an entity. Whilst the underpinning of the model is rooted in theory, there is a clear reference to praxis and hence this affords meaning for benchmarking purposes.

Within each of the study organisations I propose:

1. To identify and analyse the structure and nature of the governance
2. To identify and analyse risk and crisis management planning policies and procedures
3. To identify and analyse the role of other stakeholders in crisis management planning,

Study Philosophy and Methodology

The research questions reflect the themes contained within the literature related to governing, risk and crisis management in small businesses and are based upon a processual model that has a theoretical focus on the cognitive limits of rational action and the micro-politics of organisations (Whittington 2001).

The questions acknowledge the ubiquitous nature of dynamism and uncertainty and reflect the thinking of the Process Philosophy School and Heraclitus' concept of the omnipresence of shifting sands, or *panta rhei* ("everything flows"), in contrast with the prevailing illusion of stability and recurrence that looms large in our perception of reality as a self-unfolding of dynamic structures or templates (Seibt 2016).

Philosophy is concerned with the nature of reality and assumptions about what constitutes social reality (ontology) and what we accept as valid evidence of that reality (epistemology). It seeks to provide an understanding of the causal relationships between observable phenomena and the interpretations of meaning.

Axiology is the branch of philosophy that is concerned with human values and beliefs and includes aestheticism – the study of questions regarding art, beauty and logic – and the study of reasoning. Saunders et al. stress the importance to the researcher of appreciating and understanding their axiological perspective. They state,

"The role that your own values play in all stages of the research process is of great importance if you wish your results to be credible.(Saunders et al. 2012)"

Turning to what I consider as being acceptable knowledge, I see the work of the "detective" as being as relevant as the work of the "natural scientist". By extension of my ontological perspective, I prefer to consider knowledge as relating more to insight that is case-specific with its own set of meanings, rather than consisting of broad generalisations.

Study population

This research uses a non-probability, purposive sampling approach. The respondents are all current or former directors of small companies, as defined in the literature, and are from a range of sectors. The criteria for selection included size of business by number of employees and the occurrence of a self-defined crisis in the preceding five years. All the companies are based in the south of England and

operate in Dorset and Hampshire. I have obtained basic information on each company from Companies House and other sources such as trade press and a variety of databases.

Study procedure

I have been in direct contact with the respondents and have written to each explaining the nature of the research, the time required for the completion of questionnaires and interviews as well as issues relating to recording and confidentiality. The respondents have signed a consent form agreeing to the basic terms of the interview and BU ethical approval has been obtained in this regard. The interviews will take place on company premises.

I have no material relationship with any of them to the extent of a commercial arrangement or participation in the activities of their companies as a director, manager, supplier, customer or consultant.

I am aware however that interviewer bias could impact on the reliability of the findings and that both verbal and non-verbal actions on my part must remain neutral and any manifestations of my personal values and beliefs will require suppression throughout the interview.

Documentary evidence and external sources of information will be sought to support verbal intelligence and provide triangulation. With consent, I will speak informally to other staff at each company in order to obtain rich data concerning the overall culture of the enterprise. Data collection across the four companies will take place between January 2017 and May 2017.

Companies and individuals are at liberty to refuse to supply information or withdraw from the research at any time.

Appendix 8 Invitation to Participate, Information Sheet and Consent Form



The Business School

Executive Business Centre
89 Holdenhurst Road
Bournemouth
BH8 8EB

10 November 2016

Research into governance, risk and crisis management planning in small companies

Dear

Small companies are a vital element in the UK economy accounting for 99.9% of all businesses as well as over one third of sales turnover and close to 50% of employment. Even though small companies are such an important part of the economy, research shows that they tend to be fragile and lacking in resilience when things go awry. According to the Cabinet Office around half of all companies experiencing a disaster and are without effective plans for recovery fail within the following 12 months resulting in both commercial and personal disruption. We need to have a better understanding of why this is the case, and what can be done to reduce this waste.

As a researcher at Bournemouth University I am seeking interest from directors of small companies (those employing between 10 and 49 full time equivalent staff) to participate in a study to discover how the board considers risk management and how the company has coped with a crisis that has occurred at any time within the past five years. It may be that you have lost a key customer or member of the team that led to a severe loss of profits; you were denied access to your premises as a result of a natural event; there was a supply chain breakdown or a product failure resulting in a loss of reputation. The definition of what constitutes a crisis is a matter for the directors to determine!

The themes I would like to explore are:

The way the board functions within your business - even if there is only one director

The risk appetite of the company

The nature of the potential risks that the company faces

The approach taken by the board to threat orientation and crisis management planning

The way in which the company has coped with a crisis in the past

The post-crisis learning and policy changes that have taken place

Participating in this research will enable you to critically reflect upon the means by which the board manages the business and its attitude towards risk and crisis

response. Each participant will receive a digest of the responses from its own directors and a summary report of the findings from companies across the sample. I intend then to publish the findings not only as academic research but also through dissemination via the Institute of Directors and in workshops. Your participation will help me to gain a better understanding of what drives the directors and managers of small businesses to engage, or not, as the case may be, in meaningful governance, risk and crisis management planning.

Each individual's contribution will be handled with the greatest confidentiality, even from other directors of the company. All company-level information will be made anonymous and, where necessary, details of finances and events will be altered to ensure the privacy of individuals and the businesses without distorting the findings of the research.

About the researcher: As well as being a doctoral candidate at Bournemouth University conducting research into governance, risk and crisis management planning in small companies, I am a Fellow of the Institute of Directors and have been a practising company director for over 35 years, currently chairman of the board in several companies.

If you have questions or concerns about the survey or your rights as a participant, please do contact me (lspiers@bournemouth.ac.uk), or my supervisors Professor Steve Letza (sletza@bournemouth.ac.uk) and Associate Professor Donald Nordberg (dnordberg@bournemouth.ac.uk)

Thank you for your input on this important business topic,

Leslie Spiers MA MBA CertEd FIOD, Doctoral Candidate

Participant Information

Research Project Title: Contribution of the board to risk and crisis management in small companies

What is the participant's involvement in the research?

Participation is through a case study approach involving completion of a questionnaire, semi-structured interviews with each director and senior manager who is a head of department. Each interview will last for around 45 minutes will take place at your office or a private venue at your convenience. The research will also benefit from information from other sources, such as accounts, reports and

board minutes, etc. Participants will also be invited, at their discretion, to take part in an open forum discussion with others who have contributed to the research.

How will the interview be conducted?

Interviews will be recorded on an audio device and later transcribed for purposes of analysis and coding. Written notes will also be taken. The recording and subsequent transcriptions are for the sole use of the research project.

How will confidentiality of my information be maintained?

Contributions of individuals and firms will be anonymous at transcription according to a key code held separately from the data. The recording will be stored only on the computer of the researcher and backed up on university servers in password-protected form. No one, other than the researcher (Leslie Spiers) and supervisors (Professor Steve Letza and Associate Professor Donald Nordberg) will have access. If you unwilling to agree to the recording of the interview on an audio device, the means of recording will be restricted to interviewer notes only.

What are the benefits of taking part?

Whilst there is an abundance of research into quoted, public companies and unlisted large and medium-sized organisations, research into small companies is limited and this is especially the case with regard to governance, risk and crisis management planning. Your participation will not only offer you an insight into best practice in this area but you will be making a contribution to the overall body of knowledge in this subject.

What next?

You are asked to complete the consent form overleaf and return it to Leslie Spiers via email as a pdf if possible or to post it to me at the address shown.

Once you have registered your interest, I will contact you to arrange a preliminary meeting in order to arrange dates and times for the research to commence.

Thank you.

Research Participation Form of Consent

Researcher:

Leslie Spiers MA MBA CertEd FIOD, Doctoral Candidate
Faculty of Management
Bournemouth University
Executive Business Centre
69-89 Holdenhurst Road
Bournemouth
BH8 8EB

Mobile: 07747 843307 lspiers@bournemouth.ac.uk

Supervisors:

Professor Steve Letza
sletza@bournemouth.ac.uk
Associate Professor Donald Nordberg
dnordberg@bournemouth.ac.uk

Please initial here

I confirm that I have read and understood the participant information sheet and the covering letter regarding this study and have had the opportunity to ask questions to clarify any points of concern	
I understand that my participation is voluntary and that I am free to withdraw from the research programme at any time and that I am free to refuse to answer any question without giving reason.	
I give permission for the information gathered to be used for the sole purposes of research and that my responses will be anonymised and I understand that neither I nor my organisation will be identified or identifiable in any reports that result from the interview.	
I agree to participate in this research under the terms stated	
I agree to the interview being recorded on an audio device. (If you prefer <i>not</i> to have the interview recorded, please do <i>not</i> initial the box.)	

Participant _____ Date _____ Signature _____

Researcher _____ Date _____ Signature _____

Appendix 9 Exploratory Questionnaire

Governance, Risk and Crisis Management

The following survey has been designed to assess the relationship between corporate governance and risk and crisis management in your organisation. This survey is one instrument within a range of research approaches within the overall case study in which the company has kindly agreed to participate.

The questionnaire will take about 15 minutes to complete and the information provided will be treated with the utmost confidence. The answers will not be attributable to either any company or individual.

Please return the completed questionnaire as a pdf and email to lspiers@bournemouth.ac.uk.

Many thanks for your assistance.

Leslie Spiers MA MBA FIOD

Please complete the details in this box before completing the questionnaire. Thank you!

Name:

Company:

Job Title:

Date:

Are you registered at Companies House as a director? Please circle Yes/No

Number of years as a director:

Circle the post-school qualifications have you gained –: Bachelors' degree; Post-Grad Certificate; Post Grad Diploma; Masters' Degree; Doctorate; Professional/Technical qualification – please specify _____

Of which professional organisations are you a member (if any)? _____

Relating to your organisation, to what extent do you agree or disagree with the following statements

1= Strongly agree; 2= Agree; 3= Neither agree nor disagree; 4 Disagree; 5-Strongly disagree

		1	2	3	4	5
1.	The board has an established governance framework	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2.	The board has adopted a recognised code such the IOD code for unlisted companies or BS 13500	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3.	There is a board charter or written terms of reference for the board and for any board committees	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

4.	There is a division of responsibilities between the running of the board and the running of the business	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
5.	The board is of sufficient size and comprises people with a range of skills to ensure its responsibilities are met	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
6.	The board largely focusses upon the long term success of the company	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
7.	The board meets sufficiently regularly to discharge its duties	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
8.	The board agenda and papers containing appropriate information are sent out in advance of the meeting	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
		1 2 3 4 5
9.	There is a standard template for board reporting	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
10.	Directors declare any conflict of interest at the start of each board meeting	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
11.	The board conducts regular director and board evaluations	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
12.	All directors engage in continuing professional development	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
13.	The board has a regular dialogue with shareholders	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
14.	The board comprises one or more non-executive directors	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
15.	New directors receive formal induction training	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
16.	There is a family governance mechanism (if applicable)	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
17.	The board regularly reviews the external environment and business context	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
18.	The company has a policy for the selection and appointment of the external auditor	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
19.	The board uses the services of a company secretary	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
20.	The board has established a risk oversight policy	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
21.	There is a specific board committee that deals with risk	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
22.	The board has established a risk management policy	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
23.	There are formal record-keeping processes to ensure that important documents relating to risk are maintained and important dates are recorded and reported to the board	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
24.	There is a comprehensive whistleblower policy that allows whistleblowers to divulge unethical or illegal practices	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
25.	Risk is a standard item on the board agenda	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
26.	The board ensures that any discussion around strategy considers the full range of key risks to which the organisation is exposed	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
27.	The risk management policy provides an overview of the risk governance structure of the organisation	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>

28.	The risk management policy outlines the steps involved in the risk management process	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
29.	The risk management policy describes how risk management is integrated and embedded into organisational processes	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
30.	The risk management policy specifies risk categories to be included in the risk register and in risk reporting	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
31.	The risk management policy outlines the risk reporting requirements	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
32.	The risk management policy articulates the organisation's risk appetite through a risk appetite statement?	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
33.	Following a risk event, the board assumes a learning mindset	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
34.	The board focusses on those risks that, given the company's current position, could threaten its business model, future performance, solvency or liquidity,	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
35.	The board approves how the key risks will be managed or mitigated and which controls will be put in place	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
36.	The risk register is kept up to date through regular review	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
37.	The ownership of risks and risk treatment actions is assigned to relevant roles within the company	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
38.	The risk management system is based on a recognised standard, e.g. ISO 31000	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
39.	Managers' report to the board in relation to the effectiveness of the company's risk management and internal control system in managing the organisation's risks	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
40.	The company has adequate insurance for its level of operations and staff numbers	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
41.	Staff are fully trained in their risk management responsibilities	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
42.	The MD and FD provide the board with certifications/assurance that the financial records of the organisation have been properly maintained	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
43.	The board engages the services of an external risk specialist	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
44.	The risk management and internal control systems are operating effectively based on the company's risk management system	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
45.	The board conduct an annual insurance review	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
46.	The directors are insured through a Directors and Officers Policy	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
47.	Directors demonstrate the qualities that the company seeks to embody in its risk culture	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
48.	The risk culture is integrated with the corporate culture, i.e. working behaviours and practices	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>

49.	The company has appropriate crisis management framework to minimise the effects of a broad range of unanticipated events	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
50.	The organisation uses a recognised framework with respect to crisis management planning e.g. BSI 11200	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
51.	The board conducts crisis management scenarios to test the effectiveness of the plans	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
52.	The board has engaged with key stakeholders in the preparation of its crisis management plans	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>

		1	2	3	4	5
53.	Crises only happen to others. We are pretty invulnerable	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
54.	Crises happen, but their impact on our business is small	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
55.	Crises do not happen to a well-managed company such as ours	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
56.	We are powerful and as such will be well protected from crises	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
57.	If a crisis were to happen, it must be because someone else is has acted with malice and intent to harm	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
58.	We need not worry about crises as, statistically, the chances of one occurring are small	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
59.	Crises cannot affect the whole of our business since we have other premises independent of one another	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
60.	We have determined the maximum outage time from trading that we can endure following any crisis	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
61.	We have a business continuity plan to enable us to operate following a crisis	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
62.	We have a relationship that links governance, risk and crisis management planning	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Please make any additional comments you wish concerning corporate governance, risk and crisis management planning:

Appendix 10 Interview Activity Control

Sheet No. 1	Bournemouth University	Faculty	Management
Performed by	Leslie Spiers Code: FSQ	Department	Accounting and Finance

Interview Date	Code	Job Title	Co. Code	Location	Time Started	Time Ended	Comments and Observations
16 Feb 2017	CO2MDF	Managing Director	CO2	office	10.00	10.45	4802 words transcribed
16 Feb 2017	CO2OPD	Operations Director	CO2	office	10.50	11.50	6076 words transcribed
22 Feb 2017	CO4MD	Ex Managing Director and Majority shareholder	CO4	home	09.30	10.30	5268 words transcribed
15 Mar 2017	CO3MD	Managing Director and Majority shareholder	CO3	office	09.30	10.15	4230 words transcribed
15 Mar 2017	CO3FD	Finance Director	CO3	office	10.30	11.35	6098 words transcribed
24 Mar 2017	CO1FD	Finance Director	CO1	office	10.00	10.35	4203 words transcribed
24 Mar 2017	CO1COMD	Sales Director	CO1	office	10.45	11.20	5291 words transcribed
26 April 2017	CO1NED	Interim Chairman	CO1	boardroom	10.00	10.35	2864 words transcribed
1 June 2017	CO1MD	Managing Director and Majority shareholder	CO1	office	09.00	09.35	3200 words transcribed

Signature

Appendix 11 Transcription Guide

File name example Interview CO1MD 010617

Margins Left: 2.54 cm. Right: 2.54 cm

Adjustment Left

Headings Calibri (Body) 11point bold

Text Calibri size 11point

Interview Date and time 04 02 17 10.15

Line spacing, 1.15 and double line spacing between sections

Interviewer "FSQ "...

Respondent example CO1NED

If there is a pause (pause), (hesitation)

If there is laughing (laughing)

If there is crying (crying)

If anyone goes out CO3FD leaves the room)

Unable to hear words (? - Trace ..?.)

Repeats (state all repetitions)

Ohm, erm, oh, mmm, etc. (Omit unless it is very significant)

Appendix 12 Node Code Book sample pages

2

Node Codebook 26 Sept 2017

Hierarchical Name	Description	Number of Sources Coded	Number of Coding Ref
Nodes\\CO2OPD interview		1	1
Nodes\\CO3FD interview		1	1
Nodes\\CO1FD interview		1	1
Nodes\\CO3MD interview		1	1
Nodes\\CO1NED interview		1	1
Nodes\\CO1MD interview		1	1
Nodes\\Marketing material CO3\\Assurance	References to assurance and security	1	2
Nodes\\Marketing material CO3\\Cost of ownership	References to low cost in use	1	2
Nodes\\Marketing material CO3\\Credibility	References to solid nature of the business	1	1
Nodes\\Marketing material CO3\\Global Reach	References to a wide network of distributors	1	1
Nodes\\Marketing material CO3\\Innovative	References to the use and development of new tech	1	1
Nodes\\Marketing material CO3\\Integrated technology	Ability to integrate with other systems	1	1
Nodes\\Marketing material CO3\\Personalisation	Sign off by owner-manager	1	1
Nodes\\Marketing material CO3\\Quality and Value	References to quality and value	1	3
Nodes\\Marketing material CO3\\Relationships	References to partnerships	1	1
Nodes\\Marketing material CO3\\Scalability	System is capable of developing as the business grows	1	1
Nodes\\Marketing material CO3\\Support	References to customer support and back up	1	1
Nodes\\CO4MD interview		1	1
Nodes\\CO4MD interview\\CO4MD letter to his son and daughter	Personal letter outlining the interlocking spheres of business and life beyond work and its implications for family	0	0
Nodes\\CO4MD interview\\CO4MD letter to his son and daughter\\Admission of failure	References to failure	1	6
Nodes\\CO4MD interview\\CO4MD letter to his son and daughter\\Plan for the future for the family	References to what Max had hoped to do	1	2
Nodes\\CO4MD interview\\CO4MD letter to his son and daughter\\Reason for the letter	References to why the letter is written	0	0
Nodes\\CO4MD interview\\CO4MD letter to his son and daughter\\Self-belief misplaced	References to hubristic attitude	1	3

Nodes\\CO2MD interview		1	1
Nodes\\CO1COMD interview		1	1
Nodes\\Q1a Corporate governance definition\\Corporate Governance definition	References to definitions and perceptions of what CG means	0	0

Reports\\Node Codebook 26 Sept 2017

26/09/2017 14:35

Page 1 of 14

Hierarchical Name	Description	Number of Sources Coded	Number of Coding
Nodes\\Q1a Corporate governance definition\\Corporate Governance definition\\CG as the pilot	References to CG as a means that provides direction	5	6
Nodes\\Q1a Corporate governance definition\\Corporate Governance definition\\CG as the watchman	References to ensure bad things do not happen or reoccur	4	4
Nodes\\Q1a Corporate governance definition\\Corporate Governance definition\\Ethical perspective	References to CG as a behavioural matter related to ethics and morals	6	13
Nodes\\Q1a Corporate governance definition\\Corporate Governance definition\\Legal perspective	References to CG as a legal construct	4	5
Nodes\\Q1a Corporate governance definition\\Corporate Governance definition\\Policy perspective	References to CG in terms of policies	2	2
Nodes\\Q1a Corporate governance definition\\Corporate Governance definition\\Stakeholder perspective	References to CG that seeks to achieve stakeholders benefit	5	7
Nodes\\Q1b Added value of CG\\CG as success factor in a small company	References to elements of CG that add value to the enterprise	0	0
Nodes\\Q1b Added value of CG\\CG as success factor in a small company\\Aids risk management	References to CG as a contribution to risk management	1	1
Nodes\\Q1b Added value of CG\\CG as success factor in a small company\\Attracts staff	References to CG being a positive in attracting staff	0	0
Nodes\\Q1b Added value of CG\\CG as success factor in a small company\\Causality	References to measuring the contribution of CG to results	1	2
Nodes\\Q1b Added value of CG\\CG as success factor in a small company\\CG has PR value	References to the improved image of the company as a result of a CG regime	0	0
Nodes\\Q1b Added value of CG\\CG as success factor in a small company\\Contribution of board	References to the contribution of CG to the work of the board	4	5
Nodes\\Q1b Added value of CG\\CG as success factor in a small company\\Corporate Conscience	References to CG as the conscience of the company	1	1
Nodes\\Q1b Added value of CG\\CG as success factor in a small company\\Defender and protector	References to CG as the watchman	4	5
Nodes\\Q1b Added value of CG\\CG as success factor in a small company\\Defines the nature of the company	References to CG as defining what the company is all about	2	2
Nodes\\Q1b Added value of CG\\CG as success factor in a small company\\Education and CPD	References to ongoing CP as an advantage to understanding CG	1	1

Nodes\\Q1b Added value of CG\\CG as success factor in a small company\\Enhances ethical behaviour	References to CG as a driver of ethical behaviour	3	5
Nodes\\Q1b Added value of CG\\CG as success factor in a small company\\Moderating	References to CG acting as a moderating factor as part of checks and balances	1	2
Nodes\\Q1b Added value of CG\\CG as success factor in a small company\\Offers added value to shareholders	References to CG and shareholder value	1	2
Nodes\\Q1b Added value of CG\\CG as success factor in a small company\\Positive role of NEDs	References to the contributions of NEDs in CG	3	10

Appendix 13 UK Code of Corporate Governance Effectiveness Criteria

“The board and its committees should have the appropriate balance of skills, experience, independence and knowledge of the company to enable them to discharge their respective duties and responsibilities effectively.

There should be a formal, rigorous and transparent procedure for the appointment of new directors to the board.

All directors should be able to allocate sufficient time to the company to discharge their responsibilities effectively.

All directors should receive induction on joining the board and should regularly update and refresh their skills and knowledge.

The board should be supplied in a timely manner with information in a form and of a quality appropriate to enable it to discharge its duties.

The board should undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual directors.

All directors should be submitted for re-election at regular intervals, subject to continued satisfactory performance.”