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Governance and management: establishing an effective balance between the roles of trustees and the CEO

Different perceptions of the demarcation between the responsibilities and authority of the governing body and the Chief Executive Officer (CEO) are a major cause of conflict in not-for-profit (NFP) organisations of all kinds – whether learned societies, trade associations or mainstream charities. Getting the balance right is of critical importance in developing an effective and forward-moving organisation. As this paper is prepared mainly for the benefit of bioscience learned societies, most of which are charities, the governing body will be referred to as the trustees throughout.

Organisational culture – volunteer-led or staff-led?

All NFP organisations need to be clear about their views on this. It is not a case of two polar opposites, more of a continuum on which the organisation needs to place itself to function most effectively and deliver its mission. The point on the continuum will change according to the lifecycle stage of the organisation. It is likely to move as the organisation grows. Not recognising this and acting on it is a common reason for failure as NFP organisations grow. Having decided where on the continuum the organisation should be in order to function most effectively, the trustees then need to ensure that their CEO is the right kind of person for that environment and that they create the right type of culture for him to function within. Below are given several examples.

Totally volunteer-led organisation

This most often applies to very small charities with no staff or with minimum staff, for example an administrator and book-keeper. The trustees must take responsibility for governance and direction, but also for management of activities and staff, as they have no executive management to do this for them. Once an organisation grows beyond this de minimis stage, and especially once it has a competent manager or CEO, it is essential that the trustees recognise this change, and put in place a new structure and culture, both within the trustee board and with the staff.

If a larger organisation remains totally, or even mainly, volunteer-led, then there are a range of potential problems:

- The organisation will be too big for them to manage effectively. They will have a skewed view of what goes on within the office(s) and will make uninformed decisions.
- If the CEO is an experienced and dynamic manager, he will resent ‘dabbling’ by people who know less than he does about how to make things happen. The trustees, after all, are generally experts in the subject of the organisation (science, medicine, accountancy…), but not in running a charity, managing a business, organising events, managing a membership system, etc. A common complaint from CEOs about their Chair is ‘he wants to do my job’.

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- If the CEO is happy with this situation, then he is probably not the right person to move the organisation forward. A good CEO cannot be switched on and off. In other words, he cannot function as a proactive director for some weeks until the trustees decide to take over for a while, and then be expected to become an 'Executive Secretary' until the trustees' attention reverts to their 'day job'.

Totally staff-led organisation

Very large charities (Oxfam, National Trust) may appear to be totally staff-led. In reality, they have a large and competent staff team, with a high-level CEO, who are responsible for running the organisation, but the mission, vision, strategy, and review of outputs and finance are still the responsibility of the trustees. If this model is handled badly, the following problems can occur:

- The trustees neglect their responsibilities and become out of touch with the organisation. They are not driving its mission and direction, they will not recognise if it deviates from their direction and strategy, and they will not be aware if significant problems are brewing until it is too late. Such trustees will find themselves in a difficult situation, both morally and legally.

- The CEO feels that the organisation is his and not the trustees' (or even the members' who they represent). He becomes autocratic, makes major decisions without consulting the trustees and, even if he makes no mistakes, loses the trust and the commitment of the trustees. If he makes a major mistake, they are unlikely to support him.

The balanced organisation

For all but the smallest NFP organisations, a balance needs to be achieved whereby the trustees feel that they are still setting the organisation's mission and strategic plan, while the CEO feels he is in charge of delivering that mission and strategy.

A good starting point is the legal responsibilities of the trustees, which cannot be delegated. Examples include, for charities in particular:

- Ensuring that all activities are within the organisation's remit
- Ensuring that funds are applied fairly and legally
- Ensuring that the organisation acts in the best interests of beneficiaries
- Ensuring that the organisation operates within the rules in its governing document and within company and/or charity law
- Ensuring that the organisation delivers public benefit

Whilst the CEO will prepare papers and provide advice on the above issues, the trustees cannot delegate their responsibility.

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The diagram below is a useful, if simplified, way of looking at the division of responsibilities.

	Advise	Decide
Mission / Strategy	CEO	Trustees
Implementation	Trustees	CEO

Thus, when defining mission and the strategic plan that will achieve that mission, the CEO will carry out research and prepare advisory papers. The trustees would be ill-advised not to take this advice carefully into consideration, but the final decisions must be ones they are happy with. Having set the strategic plan, whilst they will need to approve key points, such as the budget for achieving it and the key timelines, the implementation is the responsibility of the CEO. Again, the CEO would be well-advised to listen carefully to any advice from the trustees, but they should accept that the CEO knows best how to implement the plans. He will be judged at key points by the performance and financial outputs.

Inevitably, it is not as clear-cut as that sounds. The trustees and the CEO will have some difference in their interpretation of the boundary between strategy and implementation. For example, is the reorganisation of the staffing structure strategic or implementational? The trustees will typically say ‘strategic’ and the CEO ‘implementational’. Good practice would suggest that, if it is a major restructure that will have implications for finance, delivery of mission and members’/public perception of the organisation, then the trustees should have an involvement in the main decisions, such as redundancies, major department changes, major premises changes, significant financial implications, and so on. They will need to approve the CEO’s proposals and they may wish to suggest some changes. Negotiation may be needed if there are differences of opinion, but best endeavours should be used to achieve a solution that both sides are happy with. In particular, the CEO cannot be expected to deliver using a structure that he is very unhappy with. The trustees’ involvement should not extend to the details of job descriptions, individuals recruited and so on.

Equally, once the strategic plan is agreed, should the CEO expect to formulate detailed plans and implement them with no reference to, or input from, the trustees? Even if we accept that this seems technically to be his role, it is a foolish CEO that does not discuss plans with trustees, listen to their input, and gain their buy-in.

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Once the mission and strategic plan are agreed, the CEO needs to be clear how much authority he has. By law, the trustees must set down any delegations of authority in writing. The following are tried and tested:

1. The starting point is an agreed mission and strategic plan, with agreed timelines.

2. The trustees approve the broad headings of budgets for each main area of activity, eg events income, expenditure and surplus/deficit; grant expenditure; total expenditure budget for policy, education et al.

3. The CEO is then given a defined level of authority for decisions to deviate outside those levels. This could be, for example, 1% across the board, or it could vary by main headings. It should not be complex, and it needs to be clear that it refers to budget variations that result from the CEO's decisions, not changes that happen due to external forces (eg lower delegate numbers reducing income).

4. The CEO will report retrospectively at trustees' meetings on expenditure decisions above a certain level, but within his overall authority. The trustees can challenge the rationale for these decisions and, if required, can propose that a different course of action would be taken in future in a similar situation. However, the trustees should be careful about doing so; it is a right that should be used sparingly.

5. At quarter or year ends, the trustees will review the overall performance and forecasts, and need only challenge detail if there is a significant departure from budget. This is the opportunity for the CEO to demonstrate that all is on target or to explain why it is not.

A few additional points worth making are:

- The CEO and his staff are the experts on topics such as publishing strategy and processes, event management, staff performance, membership development and management etc. It is not sensible for the trustees to get involved with these topics in detail beyond satisfying themselves that the proposed and actual outcomes are consistent with the organisation's overall mission and strategy and financial targets.

- The trustees are the experts in the subject matter of the organisation's mission. This is true even when the CEO is a former high-ranking person within that subject area. The CEO will, of course, make his views known and expect to be listened to and given due consideration, but he must accept that the high-level mission and strategy choices belong to the trustees.

- If trustee meetings mainly involve the trustees listening to the CEO and senior staff describing their current activities and future plans, then the trustees are not involved enough and the balance is wrong.

- If trustee meetings mainly involve the trustees discussing the agenda with no real involvement from the CEO and senior staff, and not based on papers prepared by them, then the balance is wrong.

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- If an organisation is making a change to the relationship between CEO and trustees and the responsibilities and delegation of authority, which is often needed as an organisation grows, then it is important to ensure that this is implemented throughout the organisation, in its structure and standing orders, and in its culture. If the CEO is given responsibility, but trustees go direct to their favourite staff to get their favourite project carried out, or if the staff feel they can bypass the CEO and appeal direct to trustees if they don't like a decision, then the new relationship will not work.

- If the trustees are confident that they have appointed the correct CEO, then it makes no sense to restrict his freedom to use his skills by hemming him in, dabbling in his areas of authority, or criticising details. Nonetheless, trustees must not simply sit back and delegate de facto their responsibility or lose awareness of what is happening.

Getting the balance right depends in the end on a relationship of mutual respect between the CEO and the trustees, especially the Chair, who should ideally have the role of 'critical friend' to the CEO. If this relationship is not possible, then the CEO needs to identify another trustee who can take this on. They must be able to talk frankly and debate freely – and to disagree – but once the talking finishes, they must ensure they have a conclusion that both trustees and CEO have accepted, and must move forward with it in a positive way.

This is a general guidance note and is not intended to be a definitive statement of the legal situation in any respect. Organisations should take specific advice if needed. BioScientifica can provide advice on governance if required.

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