

The Board's Role

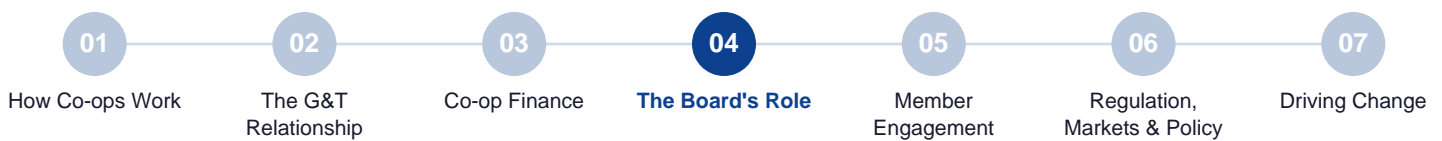
What every co-op leader should understand
about board authority, duties, and effective governance.

For boards and staff of rural electric cooperatives.

The Board's Role

ABOUT THIS SERIES

This is the fourth resource in the Co-op Foundations Series from Co-op Innovation Network. Volume 1 introduced how rural electric cooperatives are structured. Volume 2 examined the relationship between distribution co-ops and their G&T. Volume 3 covered co-op finance. Volume 4 turns to the board itself: what board members are responsible for, what authority they hold, and what effective board service looks like in practice.



Introduction

A co-op board does not run the co-op. It governs it. That distinction shapes almost everything else about board service: what decisions belong to the board, how the board and CEO divide responsibility, and what effective oversight looks like day to day.

Boards hold real authority. They hire the CEO, set the strategic direction, approve the budget, set rates, and adopt the policies that staff develop and carry out. They are also bound by legal duties to the cooperative and its member-owners.

Member-owners elect their board, but once elected, board members (also referred to as directors) answer to the cooperative as a whole, not to any one district or constituency.

This volume explains what the board is and is not, the legal duties every director carries, the five core functions, what board members do in practice, and where boards get stuck.

WHY THIS MATTERS

Authority

The board makes the decisions that shape the co-op. Understanding the role is the first step in using that authority to serve the co-op well.

Accountability

Directors are bound by legal duties to the cooperative and its member-owners. Those legal duties define good service.

Effectiveness

Strong boards govern strategically. Weak boards drift into management or rubber-stamp staff decisions.

A NOTE ON TERMINOLOGY

Co-ops use 'board member' and 'director' interchangeably. This volume uses 'board member' in general discussion and 'director' where the legal context or readability calls for it.

What the Board Is and Is Not

The board governs the cooperative. Staff, led by the CEO, manage it. That distinction is the single most important thing to internalize about board service. Most board dysfunction, in co-ops as in other organizations, traces back to a board that drifts across that line, in either direction.

The board IS

- ✓ The body that hires, evaluates, and (if needed) replaces the CEO.
- ✓ The group that sets strategic direction and approves the budget.
- ✓ The authority that sets rates and adopts policies that staff develop and carry out.
- ✓ The oversight body that monitors performance and ensures compliance.

The board IS NOT

- ✗ A second layer of management. Day-to-day operations belong to staff.
- ✗ A district-by-district advocacy body. Directors represent the whole co-op.
- ✗ A rubber stamp for staff recommendations.
- ✗ A working committee handling programs or projects.



GOVERNANCE, NOT MANAGEMENT

The clearest way to think about it: the board owns the questions of *what* and *why*, with staff input. Staff own the question of *how*, with board oversight. When boards drift too far into how, they undercut staff and lose focus on strategy. When staff drift too far into what and why, they make decisions that belong to the elected board.

The Three Legal Duties

Every director carries three legal duties to the cooperative. These are not aspirations or guidelines. They are legal standards that define what good-faith board service looks like and, if breached, can expose directors to personal liability. They apply equally to first-year and long-serving directors.

DUTY ONE

LOYALTY

Directors must act in the interest of the cooperative, not their personal interest or that of any outside group. This means avoiding conflicts of interest, respecting confidentiality, and not using the position for personal benefit.

Example: A director recuses from a vote on a contract with their cousin's company.

DUTY TWO

OBEDIENCE

Directors must follow the cooperative's bylaws, articles of incorporation, and applicable laws and regulations. The board does not have discretion to set those rules aside, even when doing so might feel like the right call in the moment.

Example: A director declines to fast-track a decision the bylaws require a 30-day notice for.

DUTY THREE

DUE CARE

Directors must act in good faith and bring the care a reasonable person would apply to important decisions. That means preparing for meetings, asking questions, reviewing materials, and making informed decisions.

Example: A director reads the full budget packet, not just the summary, before the meeting.

Duty of due care does not require directors to be experts in every domain. It allows reasonable reliance on management, staff, and outside advisors, as long as the director acts in good faith and the reliance is itself reasonable.

Five Functions of the Board

NRECA International describes the board's role as having five principal functions. They are not a checklist or a sequence. All five carry equal weight, and a board that neglects any one of them is not fully doing its job.



These five functions show up across every part of board service. When a board approves a budget, it is exercising **resources** and **control**. When it adopts a strategic plan, it is exercising **trusteeship** and **planning**. When it reviews a contract, it is exercising **legal** and **control**. Skilled board members learn to see all five functions at work in every major decision.

What the Board Does

The five functions describe the board's role at a high level. In practice, that role translates into a recurring set of decisions, reviews, and responsibilities that a board carries through the year.

1

Hire, evaluate, and (if needed) replace the CEO

The board's most consequential decision.

- Establish the CEO's job description, salary, and authority.
- Conduct a formal performance review at least annually.
- Be prepared to act when the working relationship is not serving the co-op.

2

Set strategy, approve budgets, and adopt policies

The decisions that shape what the co-op does and how it operates.

- Develop and adopt long-range plans with input from staff.
- Approve the annual operating budget and long-term capital investments.
- Adopt the policies that set direction, then let staff manage.

3

Set rates and approve capital credit retirements

Financial decisions reserved for the board.

- Approve rate schedules that recover costs and satisfy lender requirements.
- Decide when to retire capital credits and what amount to retire.
- Approve non-standard contracts and major financing decisions.

4

Stay informed, prepared, and credentialed

The ongoing work of board service, not a one-time onboarding.

- Attend board meetings prepared, having read the materials.
- Complete continuing education in governance, finance, and policy.
- Stay current on industry, regulatory, and policy developments affecting co-ops.



Done well, these responsibilities take time. Board service typically runs 20 to 40 days a year, including meetings, training, and preparation. Boards that recognize that demand, and resource it accordingly, tend to govern more effectively.

Where Boards Get Stuck

Even well-intentioned boards fall into recurring dysfunction. This does not usually mean the board is failing. It often means the role is genuinely demanding and the boundaries are easy to miss.

Drift into Management

Boards that step into staff territory undermine the CEO, slow decisions, and lose sight of strategy.

What helps: *Keep the board focused on policy and oversight, and let the CEO and staff run operations.*

Information Dependence

When staff control what the board sees, the board's judgment narrows to whatever options are presented.

What helps: *Ask to see the full range of options staff considered, and compare notes with directors at other co-ops.*

Dual Director Conflicts

Board members who also serve on a G&T board owe legal duties to both, and those duties can compete.

What helps: *Name the conflict openly, and recuse when the two co-ops' interests diverge.*

COMMON QUESTIONS

How does the board avoid drifting into management?

By spending time on policy, strategy, and oversight rather than operations, and by letting the CEO decide how to execute board decisions.

Do board members represent the district that elected them?

Districts shape who is elected, but once elected, board members represent the entire co-op. The legal duty of loyalty is to the cooperative as a whole.

How should the board work with the CEO?

The board sets direction and policy. The CEO and staff execute. Strong board-CEO relationships depend on clear expectations, regular communication, and a shared understanding of what each role does.

What training do board members need?

Many co-ops have an onboarding program for new directors, and it's helpful to seek out external sources for additional training. Ongoing education in finance, governance, and policy helps board members remain effective as the role and the industry evolve.

Should board members have term limits?

Co-ops vary. Term limits bring fresh perspective and keep board membership from becoming a permanent role, while longer tenure builds expertise. Co-ops can address this tradeoff through their bylaws and nominating process.

What if turnout in board elections is low?

Low turnout is common. Boards can improve it through clear communication, accessible voting, and good candidate information. Even with low turnout, the election remains legitimate as long as it is fair and open to all member-owners.

Sources & Acknowledgements

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- **USDA Rural Business-Cooperative Service**
Assessing Performance and Needs of Cooperative Boards of Directors (RBS Research Report 180); ten managerial responsibilities of the board.
- **NRECA International**
Roles and Responsibilities of Electric Cooperative Boards of Directors (NRECA International, 2009); five principal functions and director duties (nrecainternational.coop).
- **Wright-Hennepin Cooperative Electric Association**
 Board director legal duties framework, as cited in *Pleiades Strategy's* governance research.
- **Energy and Policy Institute**
 Analysis of dual-director fiduciary conflicts in distribution and G&T governance (energyandpolicy.org).
- **We Own It**
 Research on cooperative governance, board accountability, and member engagement (weownit.org).

SPECIAL RECOGNITION

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Special thanks for her contribution to the Co-op Foundations Series. Her research helped shape the content of each volume.

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