# **Fiduciary Duties of a Board of Directors**

**Introduction**

A **Board of Directors** is entrusted with the oversight and strategic guidance of an organization. Board members have **fiduciary duties**, which are legal and ethical obligations to act in the best interest of the organization and its stakeholders. Failure to uphold these duties can result in legal consequences and loss of stakeholder confidence.

This document outlines the three core fiduciary duties: the **duty of care**, **duty of loyalty**, and **duty of obedience**, explaining their implications and providing practical considerations for directors.

**1. Duty of Care**

**Definition**

Board members must act with the care, competence, and diligence that a reasonably prudent person would use in similar circumstances.

**Key Elements**

* **Informed Decision-Making:** Directors should ensure they are making decisions based on relevant and sufficient information. This may include reviewing reports, consulting experts, and asking questions.
* **Active Participation:** Attend meetings regularly, prepare in advance, and engage in discussions.
* **Oversight:** Monitor the organization’s activities, financial condition, and compliance with laws and policies.

**Best Practices**

* Review meeting materials and financial statements thoroughly.
* Participate in board and committee meetings.
* Document decisions and rationale in meeting minutes.
* Identify and address risks and challenges proactively.

**2. Duty of Loyalty**

**Definition**

Board members must act in the best interest of the organization, placing the organization’s interests above their own personal or professional interests.

**Key Elements**

* **Avoiding Conflicts of Interest:** Disclose any potential or actual conflicts and recuse oneself from related deliberations or decisions.
* **Confidentiality:** Maintain the privacy of board discussions and sensitive organizational information.
* **No Self-Dealing:** Directors should not use their position to benefit themselves or related parties at the expense of the organization.

**Best Practices**

* Complete annual conflict of interest disclosures.
* Establish and follow conflict of interest policies.
* Abstain from discussions/votes where a director has a material interest.
* Keep board discussions and documents confidential, unless disclosure is authorized.

**3. Duty of Obedience**

**Definition**

Board members must ensure the organization follows its mission, bylaws, policies, and applicable laws and regulations.

**Key Elements**

* **Mission Adherence:** All activities and decisions should align with the organization’s stated purpose.
* **Legal Compliance:** Board actions and organizational operations must comply with local, state, and federal regulations, including sector-specific laws.
* **Policy Adherence:** Respect and enforce the organization’s governing documents and internal policies.

**Best Practices**

* Review the organization’s mission and bylaws regularly.
* Ensure policies and procedures are current and properly implemented.
* Oversee regulatory filings and compliance activities.
* Approve or ratify major organizational actions including mergers, asset sales, or dissolution.

**Additional Responsibilities**

* **Financial Stewardship:** Oversee budgets, audits, and fiscal integrity.
* **Strategic Planning:** Participate in developing long-term goals and strategies.
* **Executive Oversight:** Hire, support, and evaluate the chief executive.
* **Risk Management:** Identify, assess, and manage organizational risks.

**Conclusion**

Serving on a board of directors is a position of trust and responsibility. By understanding and upholding the fiduciary duties of care, loyalty, and obedience, directors help to ensure the integrity, sustainability, and success of the organizations they serve.

**Directors should seek legal or professional advice when uncertain about their fiduciary responsibilities.**

**References**

* Michigan Nonprofit Corporation Act (for Michigan-based organizations)
* American Bar Association, “Guidebook for Directors of Nonprofit Corporations”
* Internal Revenue Service (IRS), “Governance and Related Topics—501(c)(3) Organizations”
* National Council of Nonprofits, “Board Fiduciary Duties”