

07 December 2005

INSTITUTIONAL ADVISORY No. 03

To: ALL ELECTRIC COOPERATIVES

Subject: EC BOD: The Governing Body of Electric Cooperatives

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Today's changing environment necessarily requires the Board of Directors (BOD) of electric cooperatives (ECs) to have a stronger, more transparent understanding of their role as the governing body of ECs, if they are, in concert with Management, to effectively fulfill the objectives of the cooperative. The Board is charged with the responsibility to establish the climate for achievement by employing competent managers and overseeing their performance. They are NOT directly responsible for management, administration or operations.

The governing role of the Board in the EC organization is a task that has five functional responsibilities, among which are as follows:

(1) Planning

The Board establishes the overall organizational mission, objectives, goals and policies of the EC. It approves work plans and budgets, ensures that the organization's energies and resources are used properly.

(2) Compliance to Legal Requirements

The Board ensures that the organization complies with laws, its own charter and by-laws. In fact, under most legal conditions, the Board – not the Manager – is directly held liable and subject to prosecution when the organization violates laws and trusts.

(3) Trusteeship

The Board ensures that investments are sound, assets are secure, resources are used in their proper purposes, service quality is acceptable

and the organization is held in high esteem by its consumers and creditors.

(4) Monitoring Corporate Resources

The Board ensures that the organization has competent management and adequate financial and physical resources in attaining its objectives.

(5) Controlling

The Board “controls” by ensuring that the EC has sufficient information to accurately evaluate management and organizational performance in terms of goals, objectives and mission achievement.

Confusion of roles occurs if Board and/or Management do not recognize their basic differences. In general, the Board’s role is to monitor management’s operating performance and management’s role is to advise, assist the Board and direct operations. Problems occur when either attempts to assume the other’s functions.

Below is an enumeration of mistakes most frequently made by the BOD:

- (1) Failure to clearly state mission, objectives and policies, thus, risk misunderstanding with management as to what is sought;
- (2) Getting involved in actual management – forgetting that the Board’s role is to govern and its manager, to manage;
- (3) Judging performance by personal opinion rather than by agreed-upon standards;
- (4) Emphasizing statistics and financial expectations while overlooking other important factors like employee – public – and consumers – relations;
- (5) Concentrating so much on the present and past, that plans and thoughts for the future are neglected;
- (6) Depending on past trends as basis for future needs, and failing to recognize that the future holds conditions which do not yet exist, but will affect the utility’s performance;
- (7) Failure to adopt and/or enforce a policy that maintains the needed delineation of responsibilities for governing and managing the utility; and

- (8) Failure to establish and/or follow policy that limits service in the Board of people with the necessary qualifications and motivations;

Becoming a Board Member is a special privilege bestowed upon each Director by the member-consumers. With the changing landscape of the electricity industry, the BOD's responsibility to the people is all the more strengthened as it takes the lead in ensuring that the electric cooperative can successfully compete in a deregulated electricity market.

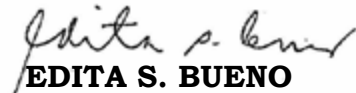
All BODs are thus enjoined to faithfully perform the above responsibilities attached to their position and eradicate mistakes frequently committed in the past, to the detriment of the overall performance of the electric cooperatives.

For your guidance.



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Noted by:



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