

The Business Judgment Rule: Protecting Board Decisions

📅 October 17, 2025 🔖 Board of Directors

Serving on a homeowners association (HOA) board comes with serious responsibility, and sometimes, difficult decisions. Board members must act in the best interests of their community, but they are not expected to be perfect or always “right.” What matters is that decisions are made in good faith, with reasonable care, and in the best interests of the association.

This principle is known as the Business Judgment Rule (often abbreviated “BJR”).

It’s a fundamental legal concept that protects volunteer directors and officers from personal liability for honest mistakes in judgment.

Purpose of the Business Judgment Rule

The Business Judgment Rule recognizes that board members:

- Regularly make decisions involving competing interests and limited information.
- Serve as fiduciaries, owing duties of loyalty, care, and good faith to the association.
- Should be encouraged to make decisions without fear of personal liability—so long as they act responsibly and in good faith.

The rule therefore protects well-intentioned board members who act honestly, prudently, and for the benefit of the association, even if the outcome later turns out to be unfavorable.

Three Core Elements

To receive protection under the Business Judgment Rule, board decisions must generally meet three standards:

1. Good Faith. Board members must act with honesty of purpose and sincere belief that their decisions are right for the community. They should not act with malice, ill will, favoritism, or personal motives.

The rule protects honest mistakes—but not misconduct or intentional wrongdoing.

2. Best Interests of the Association. Decisions should reflect the directors' belief that they are advancing the association's best interests, not those of an individual member, director, or group. Even when opinions differ, what matters is that the board's decision was made after thoughtful consideration and without self-dealing.
3. Reasonable Inquiry and Care. Board members are expected to make informed decisions. That means taking time to review relevant information, asking questions, and seeking guidance from qualified professionals such as managers, attorneys, engineers, or accountants when appropriate. Volunteer directors are not held to the same standard as full-time professionals, but they are expected to exercise the level of care that a prudent person in a similar position would use.

Informed Action vs. Inaction

The Business Judgment Rule protects decisions, not indifference. Failing to act in the face of known problems, such as ignoring safety issues, insurance lapses, or maintenance failures, may expose the board and association to liability. However, if the board consciously decides not to take action after evaluating the risks, costs, and alternatives, that deliberate choice is typically protected.

Relying on Experts

Boards are entitled to rely on advice from people they reasonably believe to be reliable and competent in the subject matter, such as legal counsel, engineers, insurance professionals, or accountants. Obtaining and considering professional input demonstrates due diligence and strengthens the board's protection under the Business Judgment Rule.

Conflicts of Interest

A director who participates in a decision where they have a personal financial or material conflict of interest may lose the protection of the Business Judgment Rule. Transparency and recusal are key: when in doubt, the conflicted director should disclose the conflict and abstain from voting.

Enforcement and Discretion

Boards often have discretion in deciding how and when to enforce rules or pursue violations. The Business Judgment Rule allows boards to weigh the seriousness of a violation, the likelihood of success in enforcement, and the potential cost or impact on the community. A decision made in good faith not to pursue enforcement or litigation is generally protected.

Practical Takeaways for HOA Boards

- Be informed. Gather relevant facts and documents before making decisions.
- Document the process. Keep meeting minutes showing what was discussed, what advice was received, and why the board reached its decision.

- Act collectively. Decisions made through proper board process carry the protection of the rule; actions by individual directors outside meetings usually do not.
- Avoid conflicts. Disclose and recuse from matters involving personal interests.
- Stay consistent. Apply rules fairly and uniformly.
- Rely on experts. Professional advice demonstrates diligence.
- Deliberate, don't ignore. A considered choice, even to take no action, shows judgment. Inaction shows neglect.

The Business Judgment Rule does not guarantee that every board decision will be successful, but it ensures that board members who act honestly, carefully, and in good faith are protected when they make tough calls for their community.

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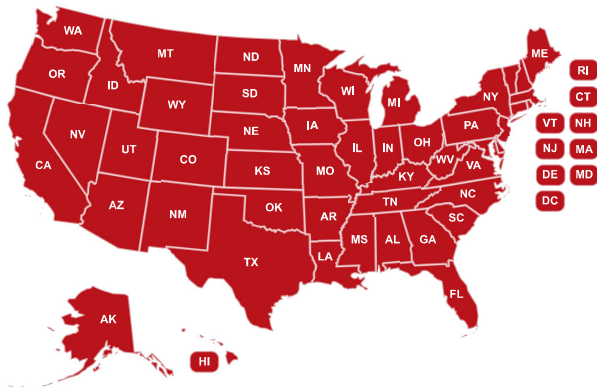
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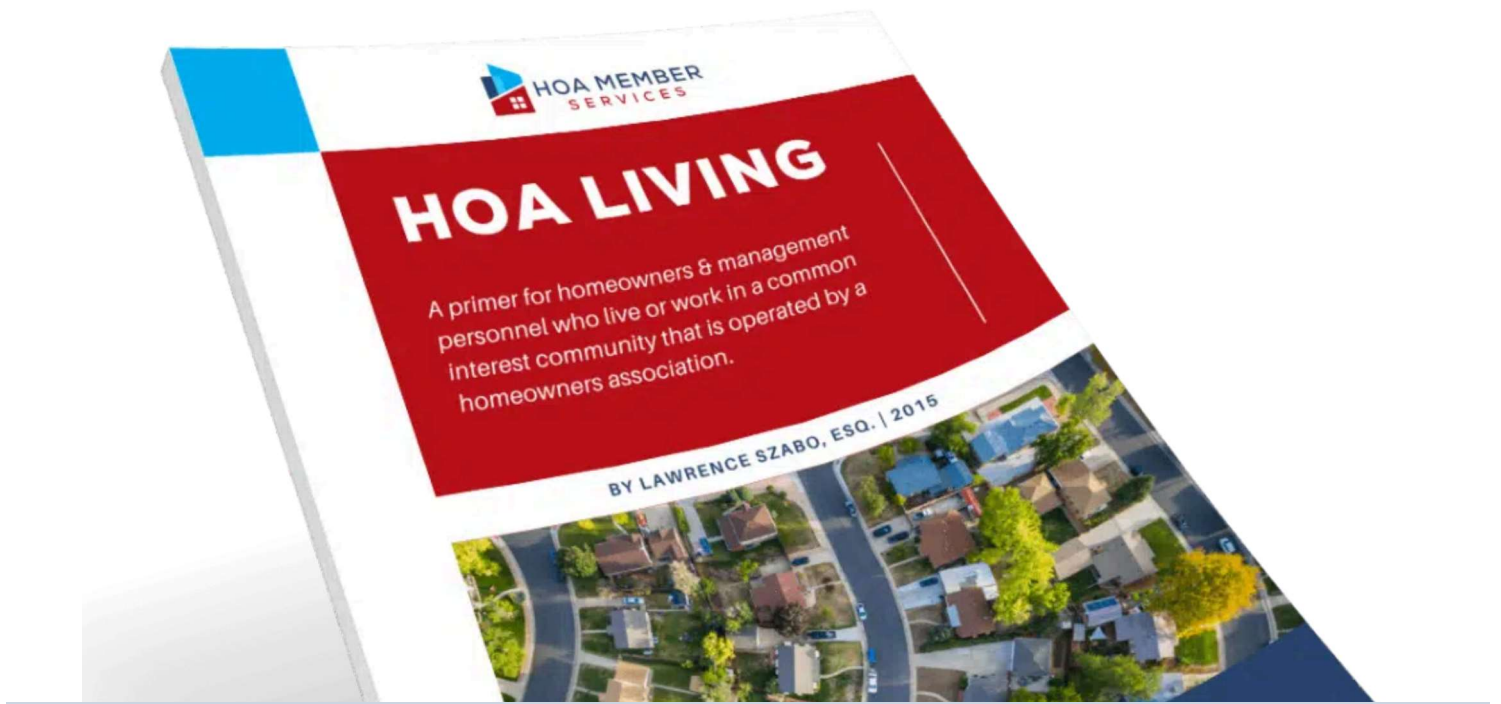
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