Chartered Governance Institute UK & Ireland

Factsheet

Governance Explainers

Being a director: Key responsibilities and liabilities for company directors

A company director has significant responsibilities for leading and managing a company. This factsheet provides an overview of the key duties, powers, and potential liabilities.

The board of directors is responsible for defining the company's long-term goals and strategic direction, ensuring adherence to its strategic plan and making necessary adjustments, selecting and overseeing executives responsible for daily operations, and providing shareholders and relevant stakeholders with updates on the company's performance and activities.

Directors' powers and responsibilities

Individually, directors manage the company and exercise its powers as outlined by the Companies Act 2006 and the company's articles of association.

Directors' duties

Under the Companies Act, directors must:

- Act within powers:
  Adhere to the company's constitution and use powers for proper purposes.
- Promote the company's success:
  Act in the best interests of shareholders, considering long-term consequences, employees, and environmental impact.
- Exercise independent judgment:
  Make decisions independently, free from undue influence.
- Exercise reasonable care, skill and diligence:
  Demonstrate both objective and subjective standards of care and skill.
- Avoid conflicts of interest:
  Prevent personal interests from interfering with their duties.
- Not accept third-party benefits:
  Avoid accepting gifts or incentives from outsiders that could influence decisions.
- Declare interests in transactions:
  Inform the board of any personal stake in proposed business deals.

Statutory responsibilities and liabilities

Directors must ensure the company complies with all statutory obligations, particularly if there is no company secretary, and they are responsible for maintaining accurate financial records and preparing annual accounts, which must be presented to shareholders and filed with the Registrar of Companies.

Directors can be held personally liable for breaching their fiduciary duties by failing to act in the company's best interests, and for wrongful trading if they continue to trade while the company is insolvent.

Directors face several legal protections. Directors' liability insurance provides protection against personal claims for actions taken in their role. Under the Company Directors' Disqualification Act 1986, directors can be banned from holding office for two to 15 years. The Insolvency Act 1986 imposes personal liability for company debts in cases of fraudulent or wrongful trading.

Section 182 of the Companies Act 2006 states that, directors must declare any direct or indirect interest in any existing company transaction or arrangement. Declarations are required only for interests likely to create a conflict of interest and must be made to the board. No declaration is needed if the other directors on the board already knew or should reasonably have known about the interest, or for interests related to service contracts or remuneration discussed by the board or a relevant committee. If the interest was previously declared and has not changed, no further declaration is necessary. This requirement applies even if the director is not a party to the transaction or arrangement.

Relevant legislation

Insolvency Act 1986:
Directors may face personal liability if the company continues trading while insolvent.

Company Directors' Disqualification Act 1986:
Allows for the disqualification of directors for misconduct.

Health and Safety at Work Act 1974:
Imposes safety obligations on directors.

Corporate Manslaughter and Corporate Homicide Act 2007:
Holds companies accountable for workplace deaths.

Resources:

Directors' duties

The Companies Act 2006

CGI Training Course:
Directors and their Duties

CGI Training Course:
Non-Executive Directors' Programme

CGI Training Course:
Effective Chairing Skills

CGI Training Course:
Risk Appetite, Ownership and Management