

Companies House

The Role of a Director

Companies Act 2006

A dictionary definition is “A person who directs controls or regulates”.

Examples in common use are: -

Film Director, the person who directs the actors; film crew etc to produce the film

Managing Director is the senior Director of a Board of Directors.

Finance Director is a specific functional director responsible for financial control.

A public company must have at least two directors and a private company must have at least one director.

After the initial appointment of directors on incorporation of a company, future changes are notified to Companies House on a [Form AP01](#).

In a company the director is appointed by the shareholders under the governance of the Articles which determines the appointment retirement and rotation of directors.

A Board of Directors have a “joint and several liability” for the actions of the board. This means that a single director may be sued for the actions of the entire board of directors.

Directors are responsible for the control and safety of the company assets. The tangible assets e.g. plant and machinery, the intangible e.g. the reputation and goodwill, and also the employee’s welfare.

A director is duty bound to always act in the best interest of the company, and must put the company before personal gain. If a director is proved to not perform their duties to the best of their abilities, then they will be in breach of duty. Any personal profit or gain made as a result of “insider” knowledge will be in breach of the trust and honesty duty of the director.

Directors have certain original statutory responsibilities: -

- The keeping of proper accounting records.
- The preparation of annual accounts.
- Filing documents to Companies House.
- The disclosure of personal interests in any contracts or dealings with the company.
- The restriction of loans above £5000 to directors.

There are also other functional responsibilities and care: -

- To the shareholders of the company to maintain and improve the wealth of the company.
- Employee's welfare, safety and remuneration.
- Customer satisfaction.
- Continued business relations with suppliers.
- Contractor's confidence in providing goods and services.

There are two Acts of Parliament that a director must be aware of: -

Insolvency Act 1986, where it can be proved that a director put their own interests before that of the company creditors in a winding up of the company.

Company Directors Disqualification Act 1986 in which a Receiver, Administrator or Liquidator can report that a director acted illegally, in breach of their duties, or is considered unfit to hold the position of a director of a company.

In addition the new **Companies Act 2006** has also come into partial effect from 1st October 2007, and the common law duties of a director have been made into additional statutory requirements as detailed below.

There are seven general duties which are set out in a statutory statement.

These are:

- A duty to act in accordance with the powers set out in the company's constitution.
- A duty to promote the success of the company for the benefit of its members.
- A duty to exercise independent judgement.
- A duty to exercise reasonable care, skill and diligence.
- A duty to avoid conflicts of interest.
- A duty not to accept benefits from third parties.
- A duty to declare to the company's other directors any interests a director has in a proposed transaction or an arrangement with the company.

All of the above come into play on 1st October 2007 except the duty to avoid a conflict of interest which will come in one year later on 1st October 2008.

The duty to promote the success of the company has replaced the old common law duty, which was to act in good faith in the company's interests. When deciding how to promote the success of the company, directors should have regard to a wide number of factors when making Board decisions.

The types of factors which the Act requires directors to pay heed to are:

- the long term consequences of any decisions made;
- the interests of the company's employees;
- the need to foster the company's business relationship with its suppliers, customers, and others (which commentators feel is likely to include its creditors);
- the impact of the company's operations on the community and the environment;
- the desirability of maintaining a reputation of high standards of business contacts;
- the need to act fairly as between the members of the company.