

Duties and responsibilities of directors



Directors owe numerous duties to a company. Many of these have been developed by the courts over hundreds of years, and the key general duties are incorporated into the Companies Act 2006 (sections 171 to 177). These are often referred to as the ‘general duties’.

There are other duties owed by directors in addition to the general duties codified in sections 171 to 177 of the Companies Act 2006. These include potential liabilities in an insolvency situation, under environmental, employment and health & safety legislation, and fiduciary duties arising out of the relationship of trust that exists between a company and its directors. Breaching these duties can have serious consequences, including financial or even criminal liability for directors.

The general duties require directors to:

- Act within powers: Directors must act in accordance with the company’s constitution and only exercise powers for the purposes for which they are conferred.
- Promote the success of the company: Directors must act in a manner that they consider, in good faith, would be most likely to promote the success of the company for the benefit of its shareholders as a whole. This involves considering the long-term consequences of decisions, the interests of employees, relationships with suppliers and customers, the company’s reputation, and the impact on the environment and the community.
- Exercise independent judgment: Directors should exercise independent judgment and not be swayed by the views or interests of others. They should consider the merits of each matter and make decisions in the best interests of the company.
- Exercise skill, care, and diligence: Directors must exercise reasonable skill, care, and diligence in performing their role. They should bring their knowledge, skill, and experience to the board and make



informed decisions based on a proper understanding of the company's affairs.

- Avoid conflicts of interest: Directors must avoid situations where their personal interests conflict, or may potentially conflict, with the interests of the company. They should not profit from their position, unless authorised to do so by the company or the articles of association.
- Not accept benefits from third parties: Directors must not accept any benefit (such as gifts or hospitality) from a third party that is conferred because of their position as a director or would reasonably be perceived as a potential conflict of interest, unless the acceptance is authorised by the company or the articles of association.
- Duty to declare interests in proposed transactions or arrangements: Directors must declare any direct or indirect interest in a proposed transaction or arrangement with the company. This duty applies to actual or potential conflicts of interest and requires disclosure to the other directors.

These general duties are designed to ensure that directors act in the best interests of the company, exercise due care, avoid conflicts, and act with integrity and independence. It is important for directors to be aware of these duties and fulfill their responsibilities diligently.

How we can help

If you are a director concerned about how your duties apply to any particular situation, or if you are accused of breaching your duties, then we can advise you on your options and defend you from any claim. If you are a shareholder or director concerned about the actions of a director then we can evaluate your options and advise on the best course of action



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