



# Being a Company Director





*It should not be hard for you to stop sometimes and look into the stains of walls, or ashes of a fire, or clouds, or mud or like places, in which ... you may find really marvellous ideas.*

LEONARDO DA VINCI

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## What's it all about?

A company director has responsibility for running the business; where there are shareholders, they own the company, but they don't run it. A limited company must have at least one director. For some time the responsibilities of directors were determined by case law. As of The Companies Act 2006, the requirements of directors were laid out and you are expected to act in such a way that you 'promote the success of the business'.

## What's it for?

This tool outlines the key responsibilities expected of you as a company director. It also acts as a checklist if you are considering setting up your own company and becoming a company director. It focuses on limited companies and does not cover the responsibilities of charity trustees.

The appointment of directors must comply with the company's Articles of Association, which will specify:

- How many directors there should be
- How long the directors can serve
- What happens at the end of each director's term of service

# Using the tool

Every limited company has to have at least one director. A public limited company (plc) must have at least two directors. There are limits on who can be a director and you cannot be appointed if you:

- Have been disqualified by a court from being a director
- Are an undischarged bankrupt
- Are under the age of 16

Consider the following questions and in each case circle the statement that you think is **false**:

1. A director has responsibility for preparing and delivering the following documents to Companies House
  - a. The annual return
  - b. The annual accounts
  - c. An updated business plan
  - d. Any change in the company's officers or their personal details
2. In acting in a way that promotes the success of the company, a director must:
  - a. Act in accordance with the company's constitution
  - b. Exercise independent judgement
  - c. Exercise reasonable care diligence and skill
  - d. Invest their own money in the business
3. A director must act in good faith, which includes:
  - a. Treating all shareholders equally
  - b. Making decisions quickly

- c. Not making personal profits at the company's expense
      - d. Avoiding conflicts of interest
- 4. A director must behave in an appropriate manner, which includes:
  - a. Showing the skills expected of a person with your level of knowledge and experience
  - b. Acting as reasonably as a person would do in looking after their own business
  - c. Attending every meeting
  - d. Independent judgement
- 5. A director must behave with integrity, ensuring he/she:
  - a. Avoids any interest that has a direct or indirect influence which conflicts or may conflict with the interests of the company
  - b. Does not exploit the resources of the company for personal gain
  - c. Does not accept benefits from a third party that compromise his/her position as a director
  - d. Does not tells his/her family or friends about the company's activities
- 6. A director must obey the law by:
  - a. Producing proper accounts
  - b. Filing appropriate documents with Companies House
  - c. Complying with health and safety, taxation, employment and other legislation
  - d. Contracting a legal adviser on a retainer
- 7. A director must not:
  - a. Carry on the business with the intent to defraud creditors
  - b. Keep trading at a loss thereby increasing the deficit to creditors

- c. Fail to check bank statements on a regular basis
- d. Incur debts when he/she knows they cannot be met

Answers:

1c	While it is important to have a current business plan, it is not a requirement that it has to be filed with Companies House
2d	It is not a formal requirement that a director must invest in the company
3b	Sound decision making is an important aspect of being a good director but it is not an explicit requirement of acting in good faith
4c	It is important that directors hold and attend regular meetings but it is not directly specified as a requirement
5d	A director may talk to friends or family as long as it does not compromise the success of the company
6d	There is no requirement to contract ongoing legal advice but it is important to take specialist advice when required
7c	Failing to check bank account statements may lead to other problems but is not a requirement under the general duties of a director

The Company's Act 2006 outlines eight general duties:

- To act within the powers given
- To promote the success of the company
- To exercise independent judgement
- To exercise reasonable care, skill and diligence
- To avoid conflicts of interest
- Not to accept benefits from third parties
- To declare an interest in a proposed transaction with the company
- To seek external advice where necessary, particularly if the company is in financial difficulty

The following more detailed summary of responsibilities was published by the Government in June 2007:

- Act in the company's best interests, taking everything you think relevant into account
- Obey the company's constitution and decisions taken under it
- Be honest, and remember that the company's property belongs to it and not to you or to its shareholders
- Be diligent, careful and well informed about the company's affairs. If you have any special skills or experience, use them
- Make sure the company keeps records of your decisions
- Remember that you remain responsible for the work you give to others
- Avoid situations where your interests conflict with those of the company. When in doubt disclose potential conflicts quickly
- Seek external advice where necessary, particularly if the company is in financial difficulty

## What next?

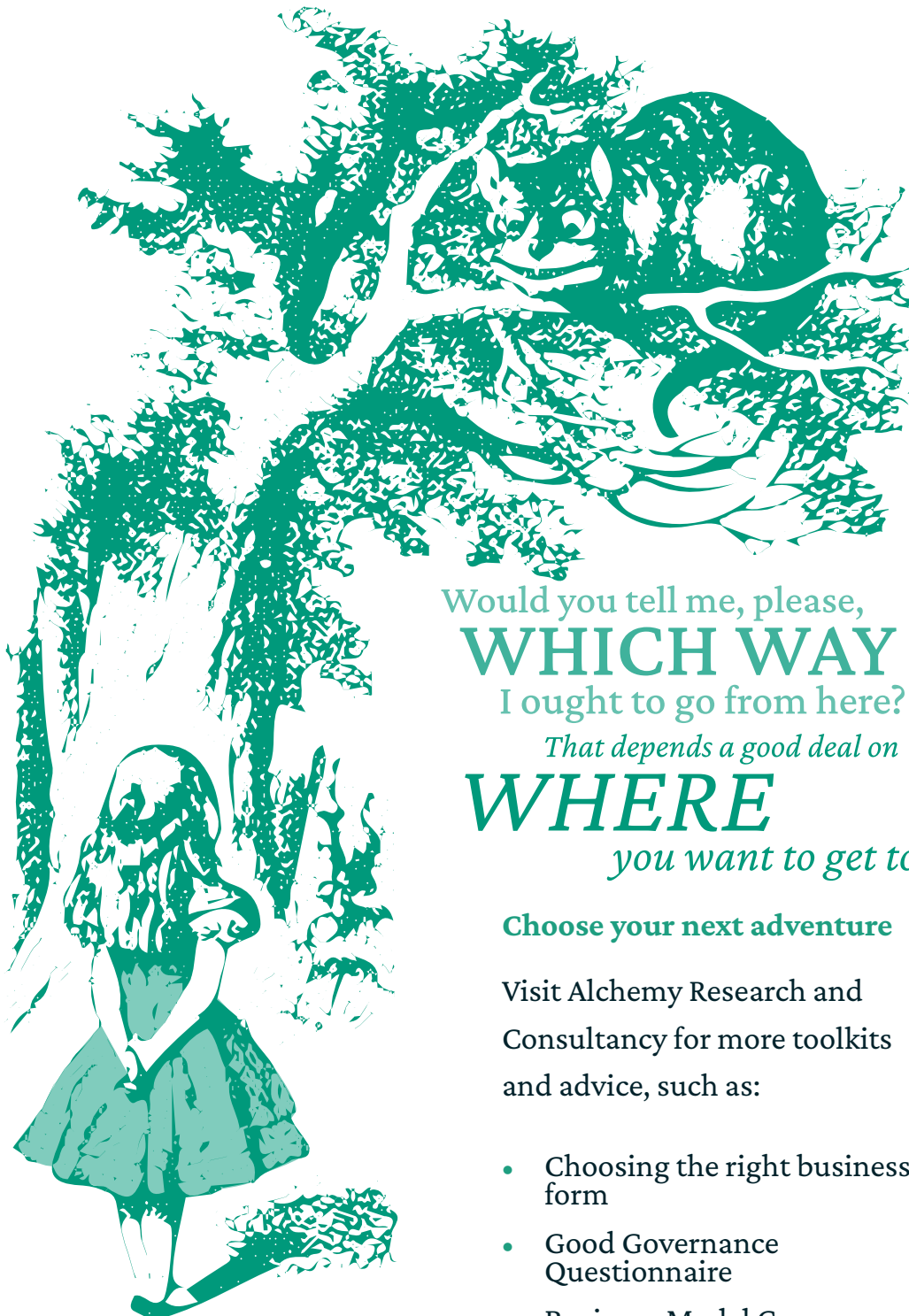
If you are already a director, how confident are you that you know what is required of you? Do you need to take any immediate actions to ensure you are compliant with relevant legislation? If you are thinking about becoming a director, what support do you think you will need? What excites you about running your own company? How will you maintain that excitement alongside the legal requirements of the role?

## Quick tips

- If ever you are unsure about the extent of your role, take specialist advice
- Join a support network/s to share your experience with other directors
- Try to keep the responsibilities in proportion, don't let them undermine your passion for running your business
- Use relevant advice agencies to keep you up to date with any changes in company legislation



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