

# Navigating directors' duties

Legal responsibilities and risks for UK company directors

[Home](#) » Navigating directors' duties

Are you a company director? If so, are you familiar with your responsibilities and duties to your company? It is common for directors to be unclear about the full scope of their duties, sometimes believing that they can essentially do what they like, particularly if they are also sole shareholders, which is often the case with SMEs. However, the [Companies Act 2006](#) and the articles of association constrain directors' authority.



## What are directors' duties?

Directors have always owed their companies fiduciary duties, and the general duty of "good faith" has evolved through case law. The Companies Act 2006 codified many of these common law and equitable duties, previously established through case law, as follows:

- **Act within powers:** Directors must exercise only the powers granted under the company's constitution and solely for their intended purposes.
- **Promote the company's success:** Directors must work to promote the company's success for the benefit of its members as a whole, prioritising the company's interests over their own.
- **Exercise independent judgment:** Directors must act independently and resist third-party influence.
- **Exercise reasonable care, skill, and diligence:** Directors must take their responsibilities seriously and discharge their duties with the requisite expertise, caution, and thoroughness.
- **Avoid conflicts of interest:** Directors must refrain from actions that could conflict with the company's best interests.
- **Not accept benefits from third parties:** Directors must refuse any benefits offered by third parties, as these may be construed as bribery.
- **Declare an interest in a proposed transaction or arrangement:** Directors must disclose any actual or potential conflicts of interest in a proposed transaction or arrangement to the other directors and, in some cases, the shareholders.

Each director individually owes statutory duties to the company. These duties protect the company and its creditors and ensure that directors remain accountable when managing company affairs. These duties cannot be seen in isolation because, in addition, a director will be subject to a wide range of regulations and legislation, including the [Insolvency Act 1986](#), the [Company Directors' Disqualification Act 1986](#), the [Health and Safety at Work etc. Act 1974](#), and the [Corporate Manslaughter and Corporate Homicide Act 2007](#).

## Risks of breaching directors' duties

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As a director, it is key that you are familiar with your duties and ensure that these are fully complied with – if you do not, you risk facing some dire consequences:

- **Damages:** If the company suffers financial loss due to a director's breach of duty, it can sue the director for damages to compensate for the loss.
- **Injunctions:** A court can issue an injunction to prevent a director from continuing a breach of duty or to stop a director from engaging in actions that would cause further harm to the company.
- **Restoration:** If a director has misused or misappropriated company property, the court can order the director to return it or compensate the company for its value.
- **Accounting for profits:** If a director has made profits through a breach of duty, the company can seek an accounting of those profits and an order for the director to pay them to the company.
- **Disqualification:** A court can disqualify a director from holding office in a company for between two and 15 years.
- **Fines and imprisonment:** In some cases, a breach of statutory duty can be a criminal offence, leading to fines and even imprisonment for the director.
- **Derivative actions:** In certain circumstances, a shareholder can bring a claim against directors on behalf of the company (a derivative action) if the directors have failed to act in the company's best interests.
- **Personal liability:** Directors can be held personally liable for losses the company suffers.

## Conclusion

In a nutshell, it is imperative that all directors know and understand the duties that they owe to their company. If, as a director, you experience difficulties complying with any such obligations, the first port of call should always be to take competent and commercial legal advice.

If you want advice on company directors' duties and liabilities, contact [Evangelos Kyveris](#) at London law firm [RIAA Barker Gillette \(UK\) LLP](#).

*Note: This article is not legal advice; it provides information of general interest about current legal issues.*