

Mike Pitt, employment, company and commercial law specialist at Oldham legal practice Pearson Hinchliffe, offers a note of caution to people considering becoming a company director.

The job title “company director” holds a certain prestige for many of those who have it, and perhaps even envy among some of those who aspire to the role. It is an occupation that comes in many varieties, ranging from a small, local family business with husband and wife co-directors, to the managing director or chief financial officer of a multinational corporation.

It is an office that, generally speaking, commands respect. A valued sales manager or astute chief accountant may find elevation to the board a just reward for services rendered.

Even though the position can bring power and possibly perks, in addition to the prestige, it would be a mistake to regard the acceptance of a directorship these days as anything but a challenging situation with onerous responsibilities.

It can hardly have escaped anyone in the commercial world’s attention that company directors have been – and rightly so – held accountable for corporate failures, company scandals and mismanagement of funds, which have resulted in reputations and fortunes being ruined. Allegations widely reported in the media of wrongdoings and of the profligate lifestyles of those in charge have tarnished the image of the company director.

Such negative publicity does, however, offer an opportunity to remind people that taking on the role of director is a serious step – an acceptance of an expectation that they will act knowledgeably, honourably and effectively in the interests of the company, its employees and its shareholders. If things go wrong, directors cannot expect to say they were a director in name only and didn’t really know what the managing director or chief financial officer were up to.

With the title comes accountability. If you’re a director you are expected to know what your duties and responsibilities within the organisation are, and to carry them out knowledgeably and efficiently.

Those duties and responsibilities are many and varied, as are the different categories of directorships. Consequently, it is in the best interests of the company and the person being appointed to take advice on how they should best approach a role that involves acting at all times in good faith and with the interests of the company, its employees, shareholders and future shareholders to the fore.

Understandably, there are different demands and expectations of a chief executive of a large company who has control of the day-to-day management of a complex organisation involving many people, than on a non-executive director who has been brought on to the board because of a particular expertise.

However, there are both specific and general obligations which all directors must have regard to. To ignore them could be damaging not only to the director's good name, but also to their finances.

Personal liability for directors is a complex issue in itself. So the best advice, before accepting a directorship (or if you are a director but have concerns) is to seek expert advice and not let ignorance of the law prevent you from fulfilling and succeeding in what can be enjoyable and rewarding work.