

Powers and Limitations of Directors

A. Background:

A company, being an artificial entity, requires directors to oversee its operations. Directors are responsible for managing a company, and the board of directors collectively ensures the smooth functioning of the business. Private Limited Companies and Public Limited Companies must have a minimum of two directors or three directors, respectively, with at least one director being an Indian citizen.

B. Powers:

The board of directors holds the highest authority in any company and is responsible for its day-to-day management. Directors derive their powers primarily from the **Articles of Association and the Companies Act, 2013**. These powers may be general, specific, or subject to other consents.

According to Section 179 of the Companies Act 2013, the board of directors of a company shall be entitled to

- a) exercise all such powers for which a company is authorised, and
- b) can take all such actions and to do all such acts and things on matters in which a company has authority.

C. Duties:

Section 166 of the Companies Act, 2013 defines duties of directors of a company, which includes:

- a) Acting in accordance with a company's articles.
- b) Acting in good faith to promote a company's objectives.
- c) Exercising duties with due care, skill, diligence, and independent judgment.
- d) Avoiding situations that may create conflicts of interest with a company.
- e) Not seeking undue personal gain or advantage; if found guilty, the director must reimburse the company.
- f) Not transferring their office, as any such assignment would be considered void.

Penalty: If a director of a company contravenes any of the aforesaid duty, such director shall be punishable with fine of at least INR 100000/- which may extend to INR 500000.

D. Restriction on Directors:

Directors' powers are subject to certain restrictions, which include:

I. Powers subject to other provisions

Powers of the directors of a company are always subject to below mentioned provisions. In other words, the board must adhere to the rules and provisions of the following:

- a. The Companies Act, 2013
- b. Memorandum of Association
- c. Articles of Association
- d. Exercise any power or act or decision that requires approval of members in **general meeting**.

II. Restrictions imposed by the members of a company:

In accordance with section 179 of the Companies Act, 2013, members of a company may by passing **Ordinary Resolution**, impose such restrictions or conditions on the powers of the directors of a company as may be in the interest of a Company.

III. Restrictions imposed by the board of directors of a company:

The board of directors may by passing board resolution, impose any restrictions or conditions on the powers of any of the directors. For example, they may stipulate that a director can only sign agreements on behalf of a company up to a certain amount or impose a restriction on financial decisions within a specific limit.

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