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LEGAL STATUS, LIABILITY, AND INTERRELATIONS OF COMPANY DIRECTORS AND OTHER EMPLOYEES

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Abstract: This article provides a comprehensive legal and functional analysis of company directors as central figures in corporate governance, focusing on their legal status, responsibilities, ethical obligations, and interaction with other key personnel within the corporate structure. Drawing on both Uzbek national legislation and international frameworks, the study examines the evolving nature of managerial accountability and internal organizational dynamics. Comparative insights are presented through the analysis of relevant academic opinions and regulatory instruments. Recommendations are provided to enhance the effectiveness and transparency of corporate governance mechanisms in Uzbekistan.

Keywords: Director, manager, corporate governance, legal status, fiduciary duty, accountability, employee relations, internal control.

INTRODUCTION

In modern business environments, the effective functioning of companies depends not only on founders and shareholders but also on the internal management structure, particularly the directors and other executive personnel. Directors serve as the highest executive authority, acting on behalf of the company and bearing primary responsibility for strategic decision-making. Their role is complemented by managers, financial officers, legal advisors, and human resource personnel, all of whom play crucial roles in implementing corporate policy.

As Professor Bob Tricker, a pioneer in corporate governance theory, has aptly noted: “Directors are not just agents of shareholders — they are fiduciaries of the company itself.”

This shift in perspective reflects the growing global emphasis on holistic and ethical corporate management, where the interests of the company and broader stakeholder groups are taken into account.

LEGAL STATUS AND FUNCTIONS OF COMPANY DIRECTORS

Definition and Appointment

A director is an individual appointed by the shareholders (or founders) to lead the company and represent it in legal and commercial matters. Under Article 472 of the Civil Code of the Republic of Uzbekistan: “A person acting on behalf of a legal entity shall exercise authority in accordance with the law and the entity's charter.”

Key Functions of Directors:

- Strategic leadership and corporate vision development
- Approval of annual business plans and budgets
- Oversight of financial health and risk management
- General supervision over staff and departments
- Ensuring legal compliance and adherence to corporate policies

Beyond these functions, directors are also custodians of corporate ethics and long-term value creation.

DIRECTOR'S LIABILITY AND ETHICAL RESPONSIBILITIES

Fiduciary Duties
Directors are bound by fiduciary obligations to act in the best interests of the company, prioritizing corporate welfare above personal gain. Breach of these duties may result in civil or even criminal liability.

International Benchmark: UK Companies Act 2006
Sections 171–177 of the UK Companies Act identify seven core duties of directors, including:

- Avoidance of conflicts of interest
- Exercising independent judgment
- Promoting the success of the company
- Ensuring transparency and accountability

As Professor Lynn Stout (Cornell University) argued: "Shareholders are not the sole beneficiaries — the company itself is the primary fiduciary focus of directors."

Liability in Case of Misconduct Directors can be held personally liable for decisions made in bad faith, negligent management, abuse of power, or violation of law. The Civil Code of Uzbekistan and relevant statutes provide mechanisms for such accountability, although their practical enforcement remains limited.

LEGAL STATUS AND ROLE OF OTHER EMPLOYEES

Organizational Ecosystem: While directors hold overarching authority, other employees — particularly managers, financial officers, legal advisors, and HR managers — are indispensable for the operational execution of corporate strategies. Each of these roles carries specific legal and organizational responsibilities:

Position	**Primary Role**
General Manager	**Coordinates daily executive functions**
Chief Financial Officer (CFO)	**Oversees financial reporting and budgeting**
Legal Counsel	**Handles legal risks and compliance**
HR Manager	**Manages workforce policies and employee relations**

Legal Basis Unlike directors, most employees work under employment contracts governed by labor legislation. Their rights, obligations, and protections are defined under labor law and internal company policies.

As Prof. Henry Mintzberg observed: "Management is the heart of the organization, and from the director to the junior employee, everyone is responsible at their own level."

RELATIONSHIP BETWEEN DIRECTORS AND OTHER EMPLOYEES

Legal Dynamics

- Directors act as company representatives with strategic authority.
- Employees are subordinate within the hierarchy, working under contractual and regulatory frameworks.
- Directors issue orders and guidance, while employees implement them, retaining rights guaranteed by labor law.

Social and Ethical Dimensions

- Fair management, transparent evaluation, and robust internal communication are critical to harmonious relations.
- Internal protocols must be in place to manage workplace disputes, whistleblowing, and conflicts of interest.

A governance framework that ensures mutual respect, accountability, and procedural clarity strengthens both employee engagement and organizational resilience.

ACADEMIC DEBATES AND THEORETICAL POSITIONS

Controversial Issue	Scholarly Viewpoint
Should directors focus solely on shareholder interests?	**Lynn Stout argues no — directors must consider public and corporate interests.**
Should employees be included in decision-making?	**Edward Freeman supports stakeholder theory, advocating employee participation in governance.**
Is director accountability effectively regulated?	**John Coffee suggests external oversight bodies (e.g., supervisory boards) are often necessary.**

These debates highlight the evolving discourse around stakeholder capitalism, participatory governance, and the limitations of traditional shareholder primacy models.

CONCLUSION AND RECOMMENDATIONS

The effectiveness of corporate governance is directly linked to:

- Clear legal boundaries between directors and employees
- Strong internal communication and feedback mechanisms

- Transparent performance assessment frameworks

Key Recommendations:

1. Legislative Reform: Amend Uzbek company law to clarify and strengthen directors' personal liability for breaches of duty.

2. Institutional Oversight: Establish independent supervisory boards or audit committees for improved accountability.

3. Ethical Training: Implement mandatory ethics and governance training programs for directors and senior employees.

4. Transparency Mechanisms: Develop systems for internal reporting, whistleblower protection, and stakeholder consultation.

5. Employee Involvement: Explore participatory models allowing employees to contribute to strategic discussions in a structured format.

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