

When Can an Employee Obligate Your Company?

Source: [The Business Owner](http://www.thebusinessowner.com) (<http://www.thebusinessowner.com>)

When you hire or promote an employee into a position of some responsibility, you are holding out that individual as someone you trust who has the authority to represent your company to third parties. But you cannot personally oversee every action that employee takes.

Major question

When does an executive or employee enter into an arrangement that your company will be legally obligated to honor?

Guideline

An employee, whether or not he or she is an officer, may commit the company to an obligation if you hold him or her out as authorized to make that type of obligation. For example, a supplier can regard a company purchasing agent as having the authority to place orders. This is referred to as “apparent authority.” If you give an individual a particular title, such as executive vice president or treasurer, it connotes specific authority. And irrespective of your internal understanding with that employee, his title makes you liable for acts that he takes without your direct or personal authorization.

In addition, the CEO or president of a company is presumed to have authority to enter into most contracts in the ordinary course of business on behalf of the business. An officer or employee in a particular area also may have similar “implied authority” to make contracts in his own area of responsibility, e.g., the vice president of marketing or the advertising director.

What to do

Since an employee or officer with actual, apparent, or implied authority can bind you to a contract, you should establish internal controls on contracts above certain dollar amounts. These controls may be in the form of approvals or review by other executives or department heads. Another option is to require two signatures on checks and contracts for large purchases above a certain dollar amount. In addition to educating your staff as to what controls are in place, you may want to advise company suppliers of these requirements by including directly on your Purchase Order the approval(s) and/or requirements for valid orders.