

Shareholders' agreements – Why do you need one?

Whether you are a small company with two, or a larger business with multiple shareholders, it is impossible to overstate the importance of having a properly drafted shareholders' agreement.

The agreement helps manage the relationship between directors and shareholders within a business, providing clarity and certainty and enabling directors to focus on the running of the business whilst also providing protections for shareholders.

It is very important that a shareholders agreement is a bespoke document, drafted to address the specific needs of a particular group of shareholders. For example, the agreement can be used to:

- control the decision making capabilities of the board of directors
- set the dividend policy of the company
- put in place procedures which the company must follow for share transfers or on a sale of the company
- protect minority shareholders' interests by placing restrictions on dominant shareholders
- determine what happens to his shares if a shareholder becomes bankrupt or if his employment with the company is terminated
- set out what happens if a shareholder dies, by implementing cross options, deemed transfer notices or permitting transfers to family members
- place restraint of trade provisions on shareholders, restricting their ability to compete against the company.

Failure to put a shareholders agreement in place means that there is greater uncertainty in the event of a dispute or if an unexpected event occurs.

In the absence of an agreement it will be much harder to resolve disputes between shareholders quickly and cheaply.

We must stress that an agreement does not guarantee that disputes between shareholders will be avoided. It does however, provide shareholders with a security blanket, giving them assurance that if ever a problem arises they have a point of reference which is likely to protect their interests.

Contact

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