

The Benefit of Shareholder Agreements

This article looks at the benefit of putting in place a Shareholder Agreement.

Under UK company law the relationship between shareholders remains, save for limited statutory provisions and a company's articles of association, unregulated. This lack of regulation allows for potential disputes to arise between shareholders, particularly in small and medium sized owner-managed companies. A shareholders agreement seeks to redress this issue by defining and governing the relationship between shareholders.

Shareholders agreements can contain almost any arrangement. Examples include;

- Defining the obligations of each shareholder to the company (i.e. a duty to promote the success of the business, good faith, not to compete with the business etc.);
- The policy in relation to declaring dividends;
- The procedure for transferring shares, including pre-emption rights, how shares are to be valued, the compulsory sale of shares;
- The issue of new shares in the company;
- the right to be appointed, or appoint a non-shareholding third party, as a Director;
- The procedure in the event of a dispute between shareholders and how this is to be resolved fairly;
- Minority protection for shareholders;
- Confirming all other matters of the company that require shareholder consent, such as entering into transactions or contracts worth more than a specified sum, changing the articles of association, changing the company name, issuing shares, altering share classes etc.;
- Restrictive covenants;

It is always advisable to have a shareholders agreement, even between family members or friends who own a company. In the event that the personal relationship should change the shareholders agreement maintains the business relationship and can prevent disruption to the company. Without such an agreement, the only method to prevent or redress unwanted actions of fellow shareholders is to engage in potentially costly and lengthy legal proceedings. A Shareholders agreement should therefore be seen as a cost saving tool, as well as an organisational and regulatory one.

The content of this article was accurate as at December 2021. The law may change over time following changes in legislation or new court cases. We do not actively update our articles once they are published.

As such, the content of this article is not intended as specific legal advice but as general guidance only.

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