

Shareholders agreement - why bother?

Many people embark upon business enterprises with family members or friends. Often those businesses are conducted through a company.

The Constitution of a company governs the rights and entitlements of the shareholders and obligations of the directors. However the Constitution usually doesn't take into account specific arrangements between the shareholders, such as:

- How do you handle a shareholder who wants "out"?
- Do you have to work in the business to be a shareholder?
- How are disagreements handled?
- Who gets to sit on the board of directors?
- What authority is given to whom for various decision-making?
- Can a shareholder be fired?

A company which is wholly owned by one person does not need a shareholders agreement. However, as soon as there is more than one owner, such an agreement is essential.

Our experience over the years has shown us that many issues arise between shareholders which could have been avoided if a shareholders agreement was entered into at the time the business was established. Quite often, many of the disagreements which result in bitter disputes start out from genuine misunderstandings between shareholders. If properly discussed at the outset when everything is fine, an agreed course of action can be documented and the potential for misunderstanding avoided.



Without agreement
does the value go
to the lawyers?



We encourage our clients to sit down with their business partners and have a properly constructed shareholders agreement prepared. The costs involved in doing so pail into insignificance with the emotional and financial costs that can arise in the event that the business relationship falls apart.

We are able to guide and assist you through the process of discussing the relevant issues to be addressed in a shareholders agreement and liaise closely with your solicitors for its preparation.

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