



Why you need a shareholder agreement

In small businesses, a shareholder agreement can ensure that if a director is unable to work – or even dies early – the remaining shareholders will have first refusal on that director's shares. Set up along with an insurance policy, this can ensure that the business remains with its founders, but also compensates beneficiaries adequately for the surrender of any inherited share.

It is a difficult thing to consider, particularly in the early, visionary days of a small business, but without such an arrangement, directors or partners might see part of their company sold on to competitors or unwanted third parties before they are ready – and without their consent.

You can also use a shareholder agreement to set out how you will finance your business – for example, specifying the amount that shareholders will contribute to the company, and how and when they will pay these amounts. If you anticipate the need for further funding, you may want to use the agreement to specify how you will make loans or issue shares to raise finance.

Shareholder guarantees

You can use the shareholder agreement to specify how shareholders are responsible for the obligations of the company. For example, will all shareholders provide a loan guarantee, or a single shareholder? If an individual provides it, you could use the shareholders' agreement to specify how you will compensate that shareholder.

Within the shareholders' agreement you can also specify directors' salaries, along with the process for agreeing changes to those salaries – for example, whether all directors must consent to salary increases. Another important aspect of remuneration is the dividend policy, which you can state within the shareholders' agreement.

There are several other pragmatic issues that you can set out in the shareholder agreement – for example, the control of bank accounts and frequency of preparing and reviewing management accounts.

Your shareholder agreement is a vital document. You might not refer to it on a daily basis, but the process of preparing it will help you to think through and address some of the key decisions that involve you and your fellow shareholders.

If you need help in preparing a shareholder agreement for your business, call Neil Buckingham on 01635 551333.



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