5 reasons why you need a shareholders' agreement

There is no legal requirement to have a shareholders' agreement in place, although any company which has more than one shareholder is advised to have one. So, if it is not a requirement you might be thinking why should you invest your money in one? Here are five good reasons why you should have one:-

1. **Minority shareholder protection**
Without a shareholders' agreement in place, a minority shareholder will have little to no control in how the company is managed as most decisions concerning the company only need a majority vote. However, a shareholders' agreement can allow key decisions concerning the company to only take place with the unanimous consent of all of the shareholders

2. **Privacy**
Although a shareholders' agreement can work in conjunction with a company's articles of association, it is not a public document unlike a company's articles of association which are available to the public to view at Companies House. This allows for the content of a shareholders agreement to stay private and confidential between the parties.

3. **Shares linked to employment**
If an employee is also a shareholder and their employment ceases, there is no requirement for that employee to sell their shares meaning they will remain entitled to make decisions concerning the company and receive dividends. A shareholders' agreement can include provisions forcing an employee to offer his shares up for sale if their employment ceases. A shareholders' agreement can also include the price paid to the employee for his shares depending whether he is considered to be a 'good leaver' or a 'bad leaver'.

4. **Disputes**
Disputes in companies do occur and if the shareholders fall out, a shareholders' agreement can often be a cheaper way to resolve the dispute than litigation. A shareholders' agreement can include provisions for dealing with disputes and how decisions should be made if the shareholders do not agree.

5. **'Drag and Tag'**
These provisions allow a minority shareholder to 'tag along' to a majority shareholder on the sale of their shares to a third party. They also allow a majority shareholder to 'drag along' a minority shareholder and force them to sell their shares to a third party. Whether the minority shareholder is 'tagged' or 'dragged' they must then sell their shares at the same price and on the same terms as the majority shareholder.

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