

The top 10 causes of shareholder disputes



Shareholder disputes can arise from various factors and circumstances. While there is no definitive list of the top 10 causes, here are some common triggers for shareholder disputes.

1. **Differences in Vision and Strategy:** Shareholders may have conflicting views on the direction and goals of the company, leading to disputes over strategic decisions and long-term vision.
2. **Management and Leadership Issues:** Disputes can emerge when shareholders disagree with the competence, performance, or decision-making of the company's management team or key executives.
3. **Distribution of Profits and Dividends:** Disagreements may arise regarding the allocation of profits, dividends, or the retention of earnings, particularly when shareholders have divergent expectations or financial needs. This is particularly common in family businesses which are often cross-generational.
4. **Breach of Fiduciary Duties:** Allegations of breach of fiduciary duties by company directors or officers can lead to shareholder disputes, especially if shareholders perceive conflicts of interest, self-dealing, or mismanagement. These fiduciary duties have been codified in the Companies Act 2006 and are set out in sections 171 to 177 of that Act.
5. **Shareholder Rights and Voting Power:** Conflicts can occur when there are disputes over voting rights, dilution of shares, or unequal treatment of shareholders, such as a disparity in access to information or decision-making processes.
6. **Capital Contributions and Financing:** Disagreements may arise when shareholders have conflicting views on the timing, amount, or terms of capital contributions, equity financing, or borrowing, impacting the financial structure of the company.
7. **Shareholder Agreements and Contracts:** Ambiguities or disagreements regarding the terms and interpretation of shareholder agreements or Articles of Association can result in disputes and legal battles.
8. **Exit Strategies and Liquidity Events:** Differences in expectations or disagreements over exit strategies,



such as mergers, acquisitions, or IPOs, can cause disputes, especially if shareholders have varied time horizons or liquidity needs.

9. Valuation and Pricing of Shares: Disputes may occur when shareholders have different opinions on the valuation of the company or individual shares, particularly during fundraising rounds, buyouts, or stock repurchases.
10. Minority Shareholder Protection: Minority shareholders may feel oppressed or marginalised if they believe that majority shareholders or controlling interests are unfairly prejudicing their rights. This is something of a catch all category which may involve one or more of the triggers identified above. Whether what has happened amounts to unfair prejudice is a question that requires specialist legal advice.

Well drafted Articles of Association or Shareholders Agreements can prevent such disputes arising or provide a mechanism for resolving them, but if not then specialist advice from an experienced corporate or litigation lawyer is likely to be required.

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