Matters reserved for the board and shareholders

A schedule of matters reserved for the board should be established. The board are then able to delegate authority to the executive management which should be formalised in writing that sets out the parameters of the delegated authority (with attention for any financial thresholds regarding decision-making powers).

Delegated authorities should be reviewed periodically to ensure that they remain appropriate given the structure, size, scope, and complexity of the company. It should be emphasised that the execution of some board responsibilities can be delegated but the responsibility itself cannot be delegated. The board in particular remains fully responsible.

Matters reserved for the board would typically include the following:

- Strategy
- Approval of corporate plans and budgets
- Approval of the annual accounts
- Internal controls
- Appointment of the CEO
- Significant legal matters such as litigation or regulatory matters
- Corporate governance arrangements
- Stakeholder engagement
- Delegation of Authorities to management

It's important to note that the specific matters reserved for the board and shareholders can vary depending on the company's Articles of Association and any shareholders' agreements in place. It's essential to carefully review these documents to understand the exact division of decision-making authority within a particular company.

Matters reserved for shareholders would typically include the following:

- Appointment of auditor (if audit required)
- Approval of dividends
- Approval of changes to the Articles of Association
- Major acquisitions or disposals
- Appointment and remuneration of directors
- Altering rights attached to shares or changes in the capital structure
- Bank borrowings or guarantees (above a certain value)

Matters reserved for shareholders may be included in a shareholder agreement and could include such matters where shareholders have a veto over certain matters typically reserved for the board. The shareholders' agreement should also include dispute resolution provisions, such as a shareholder buyout option.

Without a shareholders agreement, the top four likely problems that founders may encounter:

1. Disagreements and Conflicts

When there is no shareholders' agreement in place, disagreements and conflicts among founders are almost inevitable. A shareholders' agreement can establish a clear framework for making decisions, resolving disputes, and assigning responsibilities. Without these guidelines, founders may have differing viewpoints on crucial matters, such as business strategies, investments, or hiring decisions. These disagreements can erode cohesion within the team, impede progress, and ultimately lead to the stagnation of the company.

2. Lack of Exit Strategies

A well-crafted shareholders' agreement can include provisions that address exit strategies for founders and other shareholders. These strategies might involve mechanisms for purchasing the shares of a departing founder, providing existing shareholders with the right of first refusal to buy those shares, and specifying timelines for potential third-party sales.

In the absence of such provisions, founders seeking to exit the company or establish a clear exit timeline may encounter difficulties in finding buyers or reaching agreeable terms. This can result in financial and emotional repercussions.

3. Limited Protection for Minority Founders

In businesses with multiple founders or external investors, a majority shareholder or group of majority shareholders often holds significant control. Without a shareholders' agreement, minority founders may find themselves exposed to decisions made by the majority that do not align with their interests.

This absence of protection can lead to the dilution of their influence or their exclusion from critical decisions, causing frustration and dissatisfaction among minority shareholders.

4. Share Transfer Restrictions and Disputes

Shareholders' agreements typically include provisions that regulate the transfer of shares, including rights of first refusal and restrictions on selling shares to third parties. In the absence of such restrictions, founders may be tempted to sell their shares to competitors or unsuitable individuals, or they may at least be concerned about the possibility of others doing the same.

Furthermore, the lack of clear guidelines for share transfers can result in disputes and legal battles among founders, further destabilizing the business.

In summary, implementing a suitable shareholders' agreement at an early stage can prevent a variety of issues that, though initially minor, can swiftly escalate as the business expands in size and value.

ACCOUNTABILITY

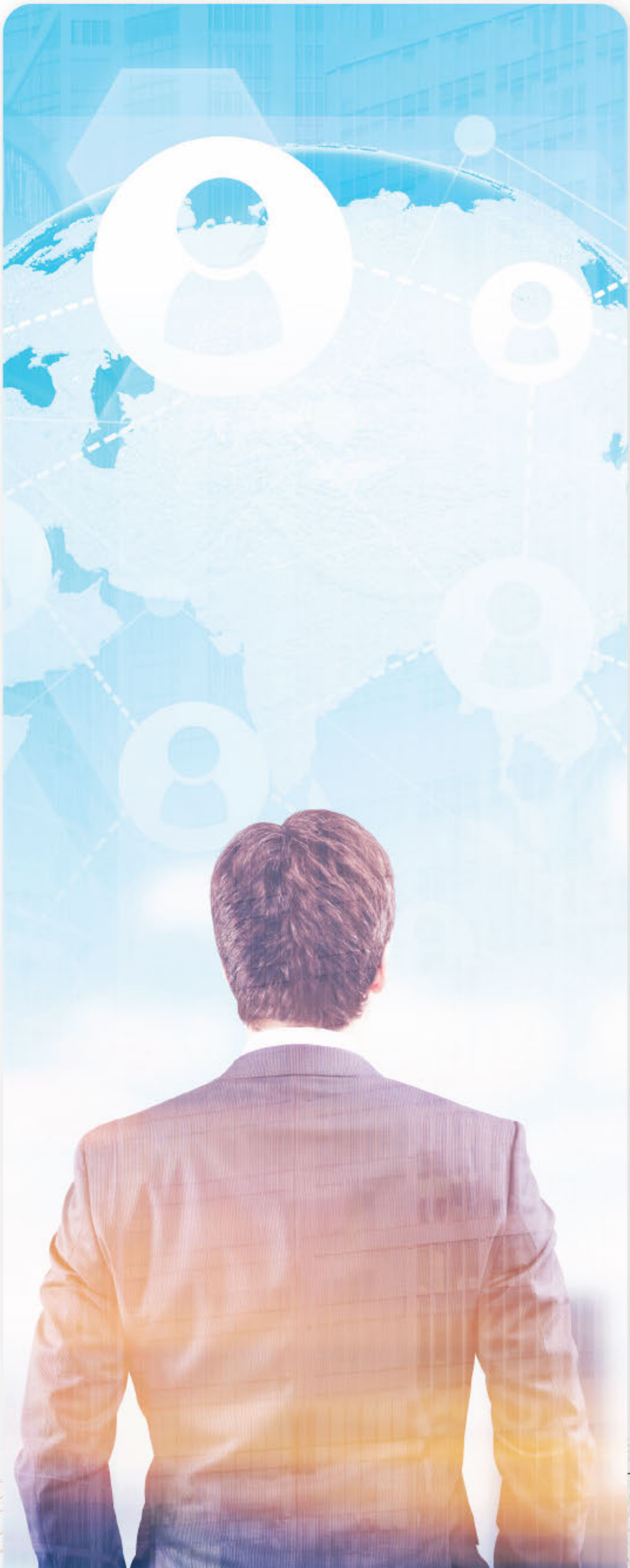
Accountability is an essential pillar of effective governance, ensuring that those occupying positions of authority remain answerable for their actions, decisions, and outcomes. Its significance extends beyond ethical and moral grounds, encompassing the realm of efficient organizational management.

The value of accountability cannot be overstated. It nurtures trust and credibility among stakeholders, including employees, shareholders, and customers. The establishment of a transparent decision-making framework, coupled with accountability for actions taken, engenders transparency and equity. This, in turn, fosters heightened confidence in both the organization and its leaders, resulting in improved employee morale, enhanced customer loyalty, and increased investor interest.

Furthermore, accountability plays a pivotal role in avoiding legal and reputational risks. A well-defined decision-making structure and repercussions for unethical conduct reduces the risks of legal issues, thereby saving the organization precious time and resources. Additionally, sound accountability practices prevent damage to the organization's reputation stemming from unethical or immoral behaviour exhibited by its members.

One of the benefits of accountability, through good governance, is preventing unnecessary bureaucracy. Bureaucracy is defined as a system of rules and regulations, which often leads to sluggish decision-making and inefficiencies. However, when accountability is entrenched, it streamlines the decision-making process and reduces bureaucratic red tape.

Moreover, accountability, fostered through robust governance, alleviates anxiety and stress among directors. A clearly delineated decision-making framework allows directors to fulfill their responsibilities without the added burden of uncertainty or fear of repercussions, culminating in a more conducive and productive work atmosphere.



Good governance embodies a set of principles and practices geared toward transparency, accountability, and effective decision-making. To build accountability, it necessitates transparent communication channels and decision-making protocols. This involves the formulation of comprehensive guidelines and standards applicable to all members of the organization, extending from board directors to employees at all levels.

Worth noting that responsibility can be delegated by the board but accountability cannot:

1. Clear, transparent communication among all organization members, with regular updates on decision-making processes and outcomes, as well as channels for feedback and suggestions.
2. A well-defined decision-making framework, accompanied by ethical and moral behaviour guidelines.
3. The existence of consequences for actions that contravene the organization's established standards and guidelines, thereby holding those in positions of authority accountable for their choices and actions.

In summary, accountability, created through effective governance, benefits both the organization and its directors. It mitigates bureaucratic hurdles, alleviates stress for directors, instils trust and credibility among stakeholders, averts legal and reputational risks, and fosters a more positive and productive work environment. To build accountability, organisations must embrace transparent communication, robust decision-making processes, ethical standards, and enforceable consequences. By adopting such governance practices, organisations can bolster accountability and reap the rewards of a more efficient and effective management system.