



CORPORATE GOVERNANCE - THE ROLE OF SHAREHOLDERS

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Corporate governance principles are usually ascribed and upheld by the board of directors who report to shareholders.

Shareholders are the owners or financiers of the company. In large scale companies, shareholders are not usually involved in the management of the company. The role is left to the board of directors who run the company at a high and strategic level. For present purposes, it is important to understand the role of shareholders in corporate governance.

The shareholders have no legal obligation towards the company and they also do not have a fiduciary duty to the company. Those obligations lie with the board of directors

If shareholders do not have fiduciary and legal obligations towards the company -

what is their role in corporate governance?

- They appoint the board of directors who must be independent and have the requisite skills.
- Shareholders have to equip themselves with knowledge of corporate governance, so that they can properly address the board of directors on governance anomalies;
- The shareholder agreements, constitution of the company, and /or articles of association usually delineate roles that shareholders play. There are some instances where roles normally set aside for the board are reserved for shareholders. If the board acts in matters reserved for shareholders, they would have acted contrary to the tenets of corporate governance. The shareholders have a right to seek legal action against the board.

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