BEFORE IT'S TOO LATE

Could Your Shareholder Dispute Cost More Than the Business Is Worth?

How deadlock, mistrust and legal costs can destroy company value, and how early strategy and mediation may create a way out

An educational article for directors, business owners and individuals in England and Wales

Navigate Business Recovery Limited

The dispute may begin between two people, but the company pays the price

A director and shareholder dispute can begin with one decision: a salary increase, a dividend, a new investor, the removal of a director, access to the bank account or a disagreement about who is doing the work.

Very quickly, the conflict can spread into every part of the company. Staff become uncertain. Customers notice delays. Suppliers do not know who has authority. Important decisions cannot be made. Cash is spent on advisers while the underlying business loses value.

The uncomfortable truth
A shareholder may eventually win the legal argument and still lose economically because the company has been damaged beyond repair.

Common warning signs

- Board meetings become hostile or stop altogether
- One director is excluded from information or decision making
- Banking access, passwords or company records are withheld
- Salaries, bonuses, dividends or expenses are disputed
- Customers or opportunities are diverted
- Family or connected companies enter transactions with the business
- One shareholder wants to leave but nobody can agree the value
- The company cannot make decisions because voting is deadlocked
- Allegations of breach of duty, fraud or misuse of company money emerge
- Legal correspondence becomes more important than running the company

Start with the documents, not the accusations

The legal position depends heavily on the company's constitution and the parties' actual arrangements.

- Articles of association
- Shareholders' agreement
- Share allotments and Companies House filings
- Board minutes and written resolutions
- Service agreements and employment contracts
- Dividend and remuneration records
- Directors' loan accounts
- Bank mandates and authorities
- Intellectual property ownership
- Key customer and supplier contracts
- Correspondence recording promises or understandings between the owners

In smaller companies, the written documents may not tell the whole story. The way the parties actually operated the company, and any legitimate expectations created between them, may also become relevant.

What is unfair prejudice?

Section 994 of the Companies Act 2006 permits a member to petition the Court where the company's affairs are being or have been conducted in a manner that is unfairly prejudicial to the interests of members generally or some part of them.

That is a powerful remedy, but it is not a general complaint procedure for every disagreement. The conduct must be both unfair and prejudicial in the relevant legal sense.

- Exclusion from management in circumstances where participation was a legitimate expectation
- Diversion of business or assets
- Excessive remuneration or improper benefits
- Failure to pay dividends while value is extracted in another form
- Misuse of company funds
- Serious breaches of the company's constitution or agreed arrangements

The Court has broad powers if a petition succeeds, including regulating the company's future affairs or ordering the purchase of shares. In practice, valuation, discounts, conduct and the terms of any buyout can become major battlegrounds.

Other claims may exist

A shareholder dispute may also involve breach of directors' duties, derivative claims, contractual claims, employment issues, debt claims, intellectual property disputes or an application concerning access to company information.

The correct claimant matters. A loss suffered by the company may belong to the company rather than personally to an individual shareholder. Issuing the wrong claim can waste time and money.

Why valuation disputes become so expensive

One shareholder may believe the company is worth a fortune. The other may say the shares are worthless. Both may be looking at the same accounts.

Valuation can depend on maintainable earnings, future prospects, customer concentration, market conditions, debt, working capital, owner dependence, intellectual property and whether a minority discount applies.

A vital distinction
The value of a company before the dispute may not be the value available after months of paralysis, lost customers and legal expenditure.

Protect the company while the owners are fighting

The immediate objective should be to stop the dispute destroying the asset that everyone is arguing about.

- Agree temporary authority for essential payments and payroll
- Preserve access to books, records and systems
- Prevent unilateral asset transfers or unusual payments
- Maintain insurance and regulatory compliance
- Communicate consistently with staff and key stakeholders
- Avoid contacting customers to recruit them into the dispute
- Record board decisions and conflicts properly
- Consider neutral oversight for specific transactions or information

Why mediation is particularly useful

The Court can determine legal rights, but it may not be able to rebuild trust, design a tax efficient separation, protect staff or create a staged commercial exit.

Mediation allows the parties to consider a wider range of outcomes in confidence.

- One shareholder buys the other out
- The company or business is sold
- Assets, customers or divisions are separated
- A staged payment is supported by security
- Management roles and decision making are redefined
- Historic salary, dividend or loan account issues are resolved
- Confidentiality and non disparagement terms are agreed
- A timetable is created for handover, resignation and release from guarantees

The Civil Procedure Rules expect parties to consider alternative dispute resolution before proceedings. The Court also has discretion over costs, and conduct concerning settlement may become relevant.

Do not mediate blind

Mediation works best when each party understands the legal case, the financial information and the realistic valuation range.

- Identify the issues that must be determined
- Obtain reliable management accounts and cash information
- Understand personal guarantees and company liabilities
- Obtain appropriate valuation evidence
- Clarify tax and funding consequences
- Decide who has authority to settle
- Prepare a workable Plan B if no agreement is reached

Seven questions to ask before issuing proceedings

1. What outcome do I actually need: control, information, money, an exit or protection from further conduct?
2. Does the claim belong to me personally or to the company?
3. What documents support my case and what evidence supports the other side?
4. What will the litigation cost through disclosure, expert evidence and trial?
5. What will happen to the company while the case continues?
6. Can either party fund a buyout or satisfy a Judgment?
7. Could a mediated solution preserve more value than a legal victory?

The key takeaway
The earlier the parties separate the legal issues from the personal conflict, the greater the chance of preserving the company, the jobs and the value of the shares.

Speak to Vee

If you are a director or shareholder trapped in a dispute, Vee can help you understand the financial and insolvency risks, organise the issues and explore whether mediation or an independent business review could create a practical route forward.

A confidential conversation does not commit you to a particular course of action. It can help you understand the immediate risks, the available options and what needs to happen next.

Book a confidential meeting with Vee: www.navigatebr.com/book-a-meeting-with-vee/

Telephone: 0330 236 9938

Key legal and official sources

- Companies Act 2006, including sections 171 to 177 and section 994
- The Companies (Unfair Prejudice Applications) Proceedings Rules 2009
- Civil Procedure Rules, including the Practice Direction on Pre Action Conduct and Protocols
- Civil Procedure Rules Part 44 concerning costs

Disclaimer

This article is provided for general information and educational purposes only. It does not constitute legal advice, insolvency advice, financial advice, tax advice or advice on the merits of any particular matter.

Every situation is fact specific. The appropriate course will depend on the relevant documents, evidence, contractual terms, financial position, procedural stage and the conduct of the parties.

Navigate Business Recovery Limited is not a firm of solicitors and does not conduct reserved legal activities. Where legal advice, Court representation or the conduct of litigation is required, advice should be obtained from an appropriately qualified and authorised solicitor or barrister.

The article concerns the law and procedure of England and Wales. Different rules may apply in Scotland, Northern Ireland and other jurisdictions.

The legislation, rules and official guidance referred to in this article were checked as at 1 July 2026. They may change after publication.

No person or organisation should act or refrain from acting solely in reliance on this article. Navigate Business Recovery Limited accepts no responsibility for loss arising from reliance on the information contained in it.