

Corporate NEWSLETTER

ARTICLES OF ASSOCIATION & BYLAWS

*Foundations of corporate
governance*

Every business company has a constitutional document, that is, a document that formalizes the creation of the company. This document is the Articles of Association or the Bylaws.

Articles of Association

This document establishes simple partnerships, limited liability companies, and companies in general, defining their legal nature, corporate purpose, share capital, partners' participation, and basic operating rules. It is mandatory for limited liability companies and serves as the foundation for the relationship between partners.

Bylaws

This is the constitutional document of corporations, detailing the governance structure, the duties of management bodies such as the executive board and the board of directors, the rules for elections, compensation and liability of directors, as well as matters such as profit distribution and shareholders' meetings.

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Below, we outline the relevance of both documents in addressing the inherent challenges of companies.

CORPORATE CHALLENGES

The importance of a well-structured Articles of Association or Bylaws

In companies, conflicts between partners/shareholders and managers/directors may arise due to misaligned interests, poorly reasoned decisions, or the absence of clear rules.

Two big corporate challenges are the **managers'/directors' liability, and the profit distribution.**



MANAGERS'/DIRECTORS' LIABILITY

Managers have a duty to act with **diligence, loyalty, and good faith, always acting in the best interests of the company**. When these duties are breached — whether through negligent decisions or personal favoritism — agency costs may arise, along with potential civil and even criminal liability.

PROFIT DISTRIBUTION AND CLEAR RULES

The lack of clear rules regarding profit distribution **can generate legal uncertainty and disputes among partners/shareholders**.

To mitigate these risks, **it is essential to understand the role of the Articles of Association and the Bylaws in the company's legal framework**.

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How to avoid problems?

The Articles of Association and the Bylaws may provide for **control and accountability mechanisms, as well as set objective criteria, deadlines, and conditions for profit distribution**. Thus, the expectations between partners/shareholders and managers/directors are aligned from the start, and oversight and dispute resolution mechanisms are established before any potential issues arise.



How to protect your company?

- i. Draft or review the Articles of Association and the Bylaws with specialized legal support.
- ii. Establish clauses that define the powers and limits of managers/directors.
- iii. Provide clear rules on representation.
- iv. Include mechanisms for resolving partners'/shareholders' disputes.
- v. Update the documents in line with the company's growth and operational complexity.

Excellence in management begins with **well-structured documents**, as they not only formalize the company but also protect its partners/shareholders and ensure business continuity. A well-drafted Articles of Association or Bylaws is more than a formality — it is a strategic tool for asset protection and corporate governance.



Do you want to review your company's **constitutional document or better understand its risks?**

Contact our team! Our law firm assists companies and managers in structuring contracts, bylaws, and governance practices that reduce risks and safeguard assets.

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