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Articles of Association Are Not a Formality

Five points where a notary's template falls short — and what happens when you don't address them.

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Most Czech limited liability companies have articles of association based on a notary's template. At the time of incorporation, this makes sense — it is quick, inexpensive, and meets the legal minimum. The problem arises when the business starts thriving, when the partners stop agreeing, or when one of them leaves.

That is when you discover that the articles you signed five years ago do not address the situation you now face. And that resolving it will be expensive, slow, and painful.

Based on our practice, we have identified five critical points where standard templates fail.

1. Share transfer: pre-emption rights may not work in your favour

Czech corporate law allows the transfer of a share to another partner with the approval of the general meeting. Transfer to a third party can be conditioned, restricted, or excluded by the articles of association.

The template typically states: "Transfer of a share to a third party requires the approval of the general meeting." That sounds reasonable. But what does it mean in practice?

If you are a minority partner and want to sell your share, the majority partner can block the transfer at the general meeting. You have no buyer, no exit. You are effectively trapped in a company with a stake you cannot monetise.

What the articles should contain: drag-along or tag-along rights, a clearly defined pre-emption right with the price set by an independent valuer, or at minimum a time limit after which the share can be transferred without approval.

2. Profit distribution: who decides and by what majority

The template usually defaults to the statutory rule — the general meeting decides on profit distribution by simple majority. This works as long as two partners agree.

But imagine this: the company is generating profit, one partner wants dividends, the other wants to reinvest. With a 50:50 vote, nothing happens. The profit stays in the company, but without any decision on how to use it.

Even more problematic is when the majority partner systematically blocks dividend payments to the minority partner. The minority partner shares the risk, contributed capital, but receives nothing.

What the articles should contain: rules for minimum profit distribution (for example, a requirement to distribute at least 50% of net profit unless there is a legitimate reason for reinvestment), a qualified majority for decisions to retain profit, or the minority partner's right to demand distribution when certain conditions are met.

3. Managing director versus general meeting: who holds real power

The template typically assigns day-to-day management to the director and strategic decisions to the general meeting. But in practice, the line between "day-to-day management" and "strategic decisions" is blurred.

Can the director sign a contract worth CZK 5 million on their own? CZK 50 million? Can they take out a loan? Sell a property? Hire a new manager at a salary higher than their own?

If the articles do not set limits on the director's decision-making authority, the director has essentially a free hand in running the business. The general meeting can issue instructions, but if it does not, the director decides alone.

What the articles should contain: financial thresholds for director decisions that do not require partner approval, a list of decisions requiring prior consent (acquisition and disposal of real estate, loans above a certain amount, entry into joint ventures), and rules for appointing and removing the director, including protections for minority partners.

4. Death or departure of a partner: what happens to the share

This is the area no one wants to think about — which is why templates address it minimally.

If a partner dies, their share passes to the heirs. The articles can make inheritance of the share conditional on the approval of the other partners. But if they do not, your new business partner could be someone you have never met and who has no understanding of how the business operates.

A similar problem arises in a divorce — the share may form part of the marital community property and could be awarded to the other spouse in the settlement.

And then there is the scenario where a partner simply disengages — loses interest in the business, moves abroad, stops responding. They still hold their share, do not vote at general meetings, but their consent is needed for key decisions.

What the articles should contain: an obligation for heirs to offer the share to the remaining partners at a predetermined price or a price set by a valuer, a mechanism for buying out a share when a partner is inactive for an extended period, and provisions addressing a partner's divorce.

5. Deadlock: two 50/50 partners with no tie-breaking mechanism

The most dangerous scenario. Two partners with equal shares who stop agreeing on the direction of the business. One wants to expand, the other to consolidate. One wants to bring in an investor, the other does not. One wants to replace the director, the other wants to keep them.

With equal voting rights, the general meeting cannot pass any resolution. The company is paralysed. And Czech corporate law does not offer an elegant way out — a partner can turn to the courts, but litigation takes years.

What the articles should contain: a mediation clause as the first step in dispute resolution, a mechanism for rotating chairmanship with a casting vote, a "Russian roulette" or "Texas shoot-out" clause (one partner offers to buy the other out at a certain price; the other must either sell or buy at the same price), or an automatic arbitration mechanism for specific issues.

When to revise the articles

The ideal time to revise your articles of association is now — if you have never updated them since incorporation. In practical terms, revision is necessary whenever circumstances change: a new partner joins, an existing one leaves, the business grows significantly, the business model changes, or an investor comes on board.

Revising the articles costs in the order of tens of thousands of Czech crowns. A dispute between partners costs hundreds of thousands to millions — and takes years. The arithmetic is unambiguous.

The articles of association are the document that defines the rules of the game between partners. If those rules were written by someone who does not know your business and who used a one-size-fits-all template, it is only a matter of time before it becomes clear that they do not cover your specific situation.

I am not saying every company needs thirty pages of articles of association. I am saying that every company with more than one partner needs articles that address the five scenarios above. Because when they arise — and they will — it will be too late to deal with them.

If you are considering a partner coming in or leaving, see [Business partnership — how to part ways](#). For acquisitions, [due diligence](#) is essential; and for general contract drafting, [Five contract clauses nobody reads](#) is worth reading.

Setting up a company with multiple shareholders, or feeling your existing articles no longer match reality? In our [risk prevention practice](#) we set the rules so a future conflict does not paralyse the company. [Get in touch](#).

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