

One New Addition to the Management of Private Limited Company- Introduction of Board of Directors

Description

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The 1960 Commercial Code of Ethiopia **had** one or more managers lead the management of a Private Limited Company(PLC) . However the new Commercial Code of Ethiopia Proclamation No. 1243/2021, added a new management STRUCTURE. That is called a Board of Directors structure. The form and manner of management of a PLC by a board of directors or manager shall be briefly discussed.

The Memorandum of Association

The memorandum of Association(MoA) of a PLC is the formation document of the PLC. The MoA determines the structural organization of the management of the PLC. The MoA may state that the PLC be managed either by a board of directors or a manager.

Composition and Structure of a Board of Directors

When the MoA determines that the PLC be managed by a board of directors, then the number of board members shall be three or five or seven. It can not be less or more. The board of directors as a management body is the one that appoints the manager. There is a prohibition that the appointed manager cannot be the chairman of the board. The manager will be the employee of the PLC. The manner of selection, removal, tenure, decision making, liabilities, remuneration, powers and responsibilities of the board of directors shall follow the board of directors organization of a Share Company. Similarly the dismissal of the manager appointed by a board of directors shall follow the footsteps of the dismissal by a board of directors of its manager in a Share Company.

Management of PLC by a Manager

When the MoA determines that the PLC be managed by a manager, then the PLC can be managed by a manager. This is unlike the previous Commercial Code that allows manager or managers. The manager shall be appointed by the meeting of members. The manager can be a member of the PLC or an outsider. Such manager shall have full powers to achieve the business objective of the PLC. Limitations of the powers of the manager shall not affect third parties. The appointing body i.e. the meeting of members has the power to dismiss the manager.

In conclusion, the new Commercial Code of Ethiopia introduced two ways of management of a PLC. The management organization of the PLC can be either a board of directors structure or a manager structure. The choice is for the members of the PLC. Board of directors structure of management of PLC has been requested by foreign investors and granting that choice will satisfy the business needs of the time.

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