

Enforcement of Voting Rights Agreements in Korean Courts

In a decision on 12 June 2025, the Korean Supreme Court has clarified the legal standing of shareholder and joint venture agreements—particularly those involving voting rights. This is a significant development for anyone entering into shareholder arrangements (Shareholder Agreements) in Korea.

The dispute arose from a joint venture agreement between two individuals—X and Y. They agreed on a 45:55 ownership split and that each would appoint two directors to a four-member board. Things progressed smoothly until one party acted unilaterally.

Y convened a shareholders' meeting and succeeded in appointing three additional directors. This expanded the board to seven—clearly outside what the parties had agreed and changed the control of the board. X objected and took the matter to court, citing a breach of their agreement.

The lower courts agreed with X. They ordered Y to vote in favour of dismissing three of the five directors he had nominated. More interestingly, the court also allowed indirect enforcement: if Y failed to comply, he would be fined KRW 1 million per day.

The issue before the courts was whether such a voting rights agreement could restrict how a party exercised their shareholder vote. Korean law does not typically allow external contracts to override rights established in the articles of incorporation. However, this case signals a departure from that rigidity.

The Supreme Court upheld the lower court rulings. It confirmed that a shareholder can be bound by a contract that limits how they vote, so long as the agreement is clear and mutual. This is the first time Korea's top court has formally recognised this principle.

This may come as a surprise in a civil law jurisdiction like Korea, where formalities tend to matter and shareholder sovereignty has been respected in the past. However, the decision aligns with broader commercial logic.

Parties entering a joint venture need certainty that their partner will not upend the governance structure without agreement. Voting rights agreements are one way to achieve that—and now they have clear judicial backing.

The court noted that while the agreement was not in the articles of incorporation, it was still binding between the parties. When Y voted to expand the board, he broke that agreement. X was entitled to seek redress, and the court would step in to restore the intended balance.

What is also notable is the use of indirect enforcement. Courts in Korea can now impose daily fines to ensure compliance with contractual obligations relating to voting rights. This gives real teeth to agreements.

In practical terms, this case strengthens the position of minority shareholders and joint venture partners. It provides confidence that Korean courts will not only respect governance agreements but also enforce them with real consequences.

For foreign investors and joint venture partners operating in Korea, the message is clear. Agreements on how votes are cast and boards are structured are not just symbolic. They can and will be enforced—both in spirit and in practice.
