CORPORATE GOVERNANCE FOR GROWING COMPANIES

1. WHAT ARE THE OBJECTIVES OF CORPORATE GOVERNANCE?

    1.1. Corporate Governance is the system of processes, activities, standards and reporting to facilitate and deliver growth in long term shareholder value by reducing risk while maintaining a flexible, efficient and effective management framework within an entrepreneurial environment.

    1.2. Corporate Governance represents a dynamic relationship between shareholders, the Company and its Directors, influenced by a number of external factors including regulation and social responsibility.

    1.3. Good Corporate Governance should reduce the risk of uncommercial and inappropriate bad decisions being made.

2. Mandatory Corporate Governance for larger Companies has been with us in the UK for some time now. The Cadbury guidelines were introduced in 1992 and have evolved and developed into the UK Corporate Governance Code which must be followed by all premium and listed Companies in London's main market

3. In terms of AIM Rule 26, the corporate governance code that an AIM Company applies, or if no code has been adopted, must be stated together with an explanation of what corporate governance arrangements that company has.

    3.1. Aim Companies that do not adopt the code, normally adopt the "principles" based alternative known as the QCA guidelines, developed by the Quoted Company Alliance

4. Like the code, the QCA guidelines are an influence for everything that the growing Company should seek for itself, specifying good practice which should promote the development and growth which it naturally seeks.

   The challenge for many is that the QCA guidelines is less prescriptive in nature than the code, which therefore could present dilemmas of judgement for an inexperienced Board of Directors

5. For growing Companies, Corporate Governance has five main underlying principles LEADERSHIP, EFFECTIVENESS, ACCOUNTABILITY, REMUNERATION and RELATIONS WITH SHAREHOLDERS
6. Governance is the collective responsibility of the whole Board and the main accountability falling upon the Chairman. At its heart. Governance is about creating long term Company value, and reducing the risks that the Company faces. Governance is about making a better Company.
7. There are twelve operational principles in the QCA guidelines, which will enable Companies to deliver growth and long term shareholder value.
   - 7.1. SETTING OUT THE VISION AND STRATEGY

     The Board should express a shared view of the Company’s vision and strategy and communicate it internally and externally
   - 7.2. MANAGING AND COMMUNICATING RISK AND INTERNAL CONTROL

     The Board is responsible for managing Risk and implementing internal controls
   - 7.3. ARTICULATING STRATEGY THROUGH CORPORATE COMMUNICATIONS

     A healthy dialogue should exist between the Board and all its shareholders in order that informed decisions are made about the Company.
   - 7.4. MEETING THE NEEDS AND OBJECTIVES OF YOUR SHAREHOLDERS

     Directors should develop an understanding of the needs of the Company’s shareholders including minority shareholders
   - 7.5. MEETING STAKEHOLDERS AND SOCIAL RESPONSIBILTIES

     The Board should consider the Company’s responsibilities and its impact on society, the community and the environment.   It has a duty to create long term value

7.6. USING COST EFFECTIVE AND VALUE ADDED ARRANGEMENTS

There is a cost to delivering effective Corporate Governance, therefore it is vital to adopt effective and proportionate Governance arrangements

7.7. BEING RESPONSIBLE AND ACCOUNTABLE

Responsibility for Corporate Governance has much to do with the Chairman. The Board has a collective responsibility and legal obligation to promote the long term success of the Company

7.8. HAVING APPROPRIATE SKILLS AND CAPABILITIES ON THE BOARD

The Board must have an appropriate balance of functional sector knowledge, experience and skills to discharge duties and responsibilities

7.9. EVALUATING BOARD PERFORMANCE AND DEVELOPMENT

The Board should periodically review its performance to ensure that its Directors are developing skills and experiences to meet the needs of the Company in the future.

7.10. DEVELOPING STRUCTURES AND PROCESSES

The Company should determine Governance structures and processes appropriate to it, based on CULTURE, SIZE, RISK AND BUSINESS COMPLEXITY

7.11. BALANCE ON THE BOARD

The Board should not be dominated by one person or group of people. It needs to be effective and efficient.

The Board should be balanced between executive and non-executive Directors and should have at least two independent non-executive Directors

7.12. PROVIDING INFORMATION AND SUPPORT

The whole Board including non-executive Directors, should be provided with high quality, information in a timely manner to facilitate proper assessment of the matters at hand

8. ADOPTION

8.1. How the above principles are adopted depends on the size, sector, Company culture, etc.

8.2. The terms of complying with the QCA guidelines, the notion of "COMPLY OR EXPLAIN" must be borne in mind

For example, There is an expectation that a well Governed Company has at least two non-executive Directors on the Board

If you have two NEDs then you have complied.

If you have no NEDs then you need to EXPLAIN why this is the case, and what the plans of the Company is to recruit appropriate and suitable candidates.

8.3. It is necessary to take each of the twelve guidelines and for the Board together to take the measures needed to comply, or explain non-compliance. Each guideline requires an action plan to ensure that all twelve principles will eventually be implemented

9. CONCLUSION

9.1. If you are planning to list your Company on a Public Market, you should be looking at implementing Corporate Governance straight away. Without introducing a Corporate Governance Regime, you will not get a listing. Also, better Governance equals a higher market value.