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Unlisted Companies as Drivers of Economic Growth: The Role of Good Governance

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One of the great challenges of this project was developing guidance and principles of good governance that could be of benefit to the huge range of unlisted companies across Europe.

This is a hugely diverse sector.

Entrepreneurial start-ups, family companies in their 3rd or 4th generation of ownership, private equity investor owned companies, subsidiary companies, and even state-owned enterprises – all of these fall within the unlisted company universe.

And if you add to that the differing regulations and business cultures that exist across Europe – then you can appreciate that there was no way in which we could produce a "one size fits all" template for good governance.

Consequently, a key principle underlying this guidance and principles is that a governance framework must be tailored to meet the specific needs of an individual unlisted enterprise.

Furthermore, the governance framework of that enterprise must itself adapt as the enterprise grows in terms of size and complexity.

This underlies the phased approach that we have adopted in the guidance and principles.

There are however certain core aspects of a governance framework that are essential in all forms of enterprise, regardless of size and complexity.

The most important of these is the board. The board is the key decision-making body in any corporate entity, and is collectively responsible for the activities of the firm. Every company needs an effective board.

In many smaller unlisted companies this may be a particular challenge, as it may be difficult to distinguish the role of the board from that of shareholders and management, often because each of these functions is exercised by the same person.

It may not necessarily be appropriate, in the early stages of a company' development, to operate the board in an excessively formal and bureaucratic manner.

Furthermore, it may be some time before the idea of appointing an independent chairman to lead the board becomes economically viable

Nonetheless, it is still essential for the board to carefully define and distinguish its responsibilities, and to consider how it can most effectively contribute to business success.

Like their larger listed cousins, even the boards of the smallest companies face basic issues concerning their functioning such as:

- How big should the board be?
- How do we get the right people onto the board, and what is the most appropriate way to train and remunerate them?
- How do we ensure that the board has sufficient and adequate information to make decisions?
- How should the board evaluate and monitor the risks facing the firm, and ensure that the company has the right internal controls?

No company – large or small, listed or unlisted – is immune from the need to address these issues (even if only by default).

The key challenge for the smaller unlisted enterprise is to define a framework that addresses these matters in a proportionate manner.

One of the biggest issues faced by the founders and owners of an unlisted company is the decision regarding who to invite onto the board.

Owner managers may understandably be nervous about bringing outsiders onto the board.

So, although the board of even a small company is faced by a range of challenges, it is not necessarily straightforward to assemble a board that can meet those challenges.

One interim solution for a small company is the idea of the advisory board.

This is a body separate from the main board which contains individuals with expertise that can advise the company.

However, they are not part of the formal decision-making structure, and therefore do no dilute the control of the founder or owner on the board.

However, this is only a short-term solution. Such an advisory board can neither be held accountable or exercise any right to be kept properly informed by the company.

At some point, there is no alternative to the company building the effectiveness of the board itself.

Probably the most important step in this process is the decision to invite one or several outside directors onto the main board.

Our work has found that this is probably the most significant step in the governance evolution of an unlisted company.

Once it has been taken, it represents an irreversible step towards good governance, and offers the company the best chance of being a sustainable enterprise over the long term, particularly if the founder plans to exit the business, or in preparation for a change of control between the generations.

To conclude, unlisted companies have many important decisions to take about their governance framework at different stages of their development.

Unlike in larger listed companies, there are not governance experts or institutional shareholders on hand to tell them what to do.

This is the reason why ecoDa is convinced that the guidance and principles published today can make a real difference to the success and the sustainability of the dynamic and entrepreneurial unlisted company sector across Europe.