Subscription

Economics and Business Review (E&BR) is published quarterly and is the successor to the Poznań University of Economics Review. The E&BR is published by the Poznań University of Economics and Business Press.

Economics and Business Review is indexed and distributed in ProQuest, EBSCO, CEJSH, Bari/Econ and Index Copernicus.

Subscription rates for the print version of the E&BR: institutions: 1 year – €50.00; individuals: 1 year – €25.00. Single copies: institutions – €15.00; individuals – €10.00. The E&BR on-line edition is free of charge.

Correspondence with regard to subscriptions should be addressed to: Księgarnia Uniwersytetu Ekonomicznego w Poznaniu, ul. Powstańców Wielkopolskich 16, 61-895 Poznań, Poland, fax: +48 61 8543147; e-mail: info@ksiegarnia-ue.pl.

Payments for subscriptions or single copies should be made in Euros to Księgarnia Uniwersytetu Ekonomicznego w Poznaniu by bank transfer to account No.: 96 1090 1476 0000 0000 4703 1245.

CONTENTS

Introduction (Gary L. Evans and Steve Letza)

ARTICLES

Agency costs of overvalued equity and earnings management in companies listed on WSE (Michał Kałdoński, Tomasz Jewartowski)

Friends or foes? Activist hedge funds and other institutional investors (Andrew Carrothers)

Board ethos and institutional work: developing a corporate governance identity through developing the uk code (Donald Nordberg)

Governance and financing of innovative very small business (VSB): evidence from a Canadian biotechnological firm (Alidou Ouedraogo)

Corporate governance, risk and crises in small companies: shedding light from inside the boardroom black box (Leslie Spiers)

Gender diversity impact on corporate social responsibility (CSR) and Greenhouse Gas emissions in the UK (Renata Konadu)

Lessons university-based business schools should learn vicariously-rather than through experience-from university athletics (Edward W. Miles)

Commercialization of the education of economists versus integrity of the university (Jan Szambelaniczky)

Corporate governance and the African business context: the case of Nigeria (Steve Letza)

Disruptive technology and the board: the tip of the iceberg (Gary L. Evans)

BOOK REVIEWS


Richard LeBlanc [Ed.]. 2016. The handbook of board governance, a comprehensive guide for public private and not-for-profit board members. Canada: John Wiley & Sons Inc (Gary L. Evans)

Poznań University of Economics and Business Press
Aims and Scope

Economics and Business Review is the successor to the Poznań University of Economics Review which was published by the Poznań University of Economics and Business Press in 2001–2014. The Economics and Business Review is a quarterly journal focusing on theoretical and applied research work in the fields of economics, management and finance. The Review welcomes the submission of articles for publication dealing with micro, mezzo and macro issues. All texts are double-blind assessed by independent reviewers prior to acceptance.

The manuscript

1. Articles submitted for publication in the Economics and Business Review should contain original, unpublished work not submitted for publication elsewhere.
2. Manuscripts intended for publication should be written in English, edited in Word in accordance with the APA editorial guidelines and sent to secretary@ebr.edu.pl. Authors should upload two versions of their manuscript. One should be a complete text, while in the second all document information identifying the author(s) should be removed from papers to allow them to be sent to anonymous referees.
3. Manuscripts are to be typewritten in 12' font in A4 paper format, one and half spaced and be aligned. Pages should be numbered. Maximum size of the paper should be up to 20 pages.
4. Papers should have an abstract of not more than 100 words, keywords and the Journal of Economic Literature classification code (JEL Codes).
5. Authors should clearly declare the aim(s) of the paper. Papers should be divided into numbered (in Arabic numerals) sections.
6. Acknowledgements and references to grants, affiliations, postal and e-mail addresses, etc. should appear as a separate footnote to the author’s name a, b, etc and should not be included in the main list of footnotes.
7. Footnotes should be listed consecutively throughout the text in Arabic numerals. Cross-references should refer to particular section numbers: e.g. See Section 1.4.
8. Quoted texts of more than 40 words should be separated from the main body by a four-spaced indentation of the margin as a block.
10. Copyrights will be established in the name of the EBR publisher, namely the Poznań University of Economics and Business Press.

More information and advice on the suitability and formats of manuscripts can be obtained from:

Economics and Business Review
al. Niepodległości 10
61-875 Poznań
Poland
e-mail: secretary@ebr.edu.pl
www.ebr.ue.poznan.pl

© Copyright by Poznań University of Economics and Business, Poznań 2016

Paper based publication

ISSN 2392-1641

POZNAŃ UNIVERSITY OF ECONOMICS AND BUSINESS PRESS
al. Powstańców Wielkopolskich 16, 61-895 Poznań, Poland
phone +48 61 854 31 54, +48 61 854 31 55
www.wydawnictwo-ue.pl, e-mail: wydawnictwo@ue.poznan.pl
postal address: al. Niepodległości 16, 61-875 Poznań, Poland
Printed and bound in Poland by:
Poznań University of Economics and Business Print Shop
Circulation: 230 copies

International Editorial Advisory Board
Edward I. Altman – NYU Stern School of Business
Udo Broll – School of International Studies (ZIS), Technische Universität, Dresden
Wojciech Borkowski – University of Georgia, Griffin
Binam Ghimire – Northumbria University, Newcastle upon Tyne
Christopher J. Green – Loughborough University
Niels Hermes – University of Groningen
John Hogan – Georgia State University, Atlanta
Mark J. Holmes – University of Waikato, Hamilton
Bruce E. Kaufman – Georgia State University, Atlanta
Steve Letza – Corporate Governance Business School Bournemouth University
Victor Murende – University of Birmingham
Hugh Scullion – National University of Ireland, Galway
Yokunna Shachmurove – The City College, City University of New York
Richard Swemery – The McDonough School of Business, Georgetown University, Washington D.C.
Thomas Taylor – School of Business and Accountancy, Wake Forest University, Winston-Salem
Clas Wihlborg – Argyros School of Business and Economics, Chapman University, Orange
Habte G. Woldu – School of Management, The University of Texas at Dallas

Thematic Editors
Economics: Horst Brezinski, Maciej Cieślukowski, Ida Musiałkowska, Jacek Mizierka, Witold Jarek, Tadeusz Kowalski

Language Editor: Owen Eastell • IT Editor: Marcin Regula

© Copyright by Poznań University of Economics and Business, Poznań 2016

Paper based publication

ISSN 2392-1641
Economics and Business Review

Volume 3 (17) Number 1 2017

CONTENTS

Introduction
Gary L. Evans and Steve Letza ................................................................. 3

ARTICLES

Agency costs of overvalued equity and earnings management in companies listed on WSE
Michał Kaldoński, Tomasz Jewartowski ..................................................... 7

Friends or foes? Activist hedge funds and other institutional investors
Andrew Carrothers ................................................................................... 38

Board ethos and institutional work: developing a corporate governance identity through developing the UK code
Donald Nordberg .................................................................................... 73

Governance and financing of innovative very small business (VSB): evidence from a Canadian biotechnological firm
Alidou Ouedraogo .................................................................................... 97

Corporate governance, risk and crises in small companies: shedding light from inside the boardroom black box
Leslie Spiers ............................................................................................ 112

Gender diversity impact on corporate social responsibility (CSR) and Greenhouse Gas emissions in the UK
Renata Konadu ....................................................................................... 127

Lessons university-based business schools should learn vicariously-rather than through experience-from university athletics
Edward W. Miles .................................................................................... 149

Commercialization of the education of economists versus integrity of the university
Jan Szambelanczyk ............................................................................... 164

Corporate governance and the African business context: the case of Nigeria
Steve Letza ............................................................................................ 184

Disruptive technology and the board: the tip of the iceberg
Gary L. Evans ........................................................................................ 205
BOOK REVIEWS


Richard LeBlanc [Ed.]. 2016. The handbook of board governance, a comprehensive guide for public private and not-for-profit board members. Canada: John Wiley & Sons Inc (Gary L. Evans) ............................................................................................................................................ 226
Corporate governance, risk and crises in small companies: shedding light from inside the boardroom black box

Leslie Spiers

Abstract: The extant literature consistently identifies small companies as being inherently fragile, rendering them more liable to fail than their larger counterparts in the event of a crisis occurring. This paper considers the findings of a series of interviews with directors of small companies concerning corporate governance, risk and their preparedness to manage a crisis. Current corporate governance practice adds little to the effective management of crises in small companies where a prevailing attitude of denial by directors limits meaningful actions to prevent or mitigate the consequences of unanticipated events. The paper also incorporates the observations of the author, a board chairman for over 30 years, concerning corporate governance in practice within small companies.

Keywords: corporate governance, small companies, risk, crisis management, boards of directors, non-executive directors.

JEL codes: D81, G34, M00.

Introduction

The aim of this paper is to investigate corporate governance process and practices in relation to risk and crisis management planning in small UK companies where corporate governance, of which risk management is an integral element, is, for many owner-managers a peripheral or neglected pursuit. In spite of their importance within economies across the globe, Kraus et al. (2013) conclude that small companies (those employing between 10 and 49 people) are under-researched. More specifically, others (Lampel, Bhalla, & Jha, 2014; Lewis & Mioch, 2005; Minichilli & Hansen, 2007) identify a significant gap in the literature in the related trilogy of corporate governance, risk management, and crisis planning in small companies (Herbane, 2010, 2013; Saxena & Jagota, 2015).
However, in relation to small companies and the way in which they manage unanticipated disruptions the issue may be summarised as – owner managers feel they have more important matters to address than a “might happen” event at some indeterminate time in the future. Yet the preparation and testing of a plan to manage a crisis is an imperative as small companies tend to be fragile and lack the resilience of their larger counterparts and, as such, mortality rates are high.

My own experience of over thirty years, most of which has been spent in chairing the boards of small companies, suggests that there is efficacy in an appropriate corporate governance processes. Such processes should seek to engender a change in both the attitudes and actions of owner-managers and directors in addressing matters of risk and crisis management.

1. Small companies in the UK

This paper is divided into 4 sections. Section 1 offers an overview of the prevalence and diverse nature of small companies in the UK and suggests that due to resource scarcity small companies are especially fragile. Consequently, they are limited in their response capabilities when faced with an unanticipated event that challenges a delicate equilibrium.

Section 2 addresses corporate governance in small companies and considers its application in practice and its perception of value by owner-managers. Section 3 explores how small companies view risk and the potential threat that a crisis might bring about. The section also proposes a model to demonstrate the relationship between corporate governance, risk and crisis management. Section 4 contains the reflections of the author, a director of over thirty years, mostly within small companies, on the internal dynamics of boards inside the “black box” that is the boardroom.

Figure 1 shows that small businesses in the UK are not only of importance in terms of their sheer number, but they are a significant source of employment, revenue generation and subsequent tax contribution as well as being viewed as a force for good within communities (Kelley, Singer, & Herrington, 2015).

The definition of a small business varies across jurisdictions and accordingly Berisha and Pula (2015) and Di Tommaso and Dubbini (2000) both concur that the typology is not a scientific division based on macroeconomic indicators, but rather a statistical arbitrariness. The UK Government’s definition of a small company has employment as its key criteria and includes those entities employing between 10 and 49 staff. Yet, irrespective of headcount, small companies tend to be fragile and lacking in resilience (Drummond & Chell, 1994). Accordingly, few of these fragile small companies trading in an environment of complexity grow and develop to become medium-sized companies (Crossan, Pershina, & Henschel, 2015; Perrow, 1999; Santana, 1997) thereby limiting prosperity and economic activity.
In a small company, the consequences of fragility may lead to severe business interruption or, at worst, failure, and extends beyond the commercial sphere to affect directly owner-managers in terms of their domestic, personal, social and personal financial affairs. Bodmer and Vaughan point out that,

Close relations between the entrepreneurial and the private sphere of the entrepreneur's life are usual and can be an additional source for crisis emergence (e.g. the threat of a divorce) (Bodmer & Vaughan, 2009, p. 41).

Similarly, in Doern's 2016 study of the effect of the 2011 London riots upon small companies she found that,

The impact of a crisis on small companies may be particularly great because of the personal impact on owner-managers and their lack of preparedness and resources making them more vulnerable (Doern, 2016, p. 276).

In order to deal with the ubiquitous issue of fragility, Brenes, Madrigal, and Reguena (2011) suggest that owner-managers of small companies could adopt appropriate, relevant and meaningful corporate governance processes and systems in order to improve the way in which risk and crises are managed. Corporate governance therefore takes assumes the twin mantles of sentinel and watchman.
2. Corporate governance in small companies

Corporate governance was defined by Cadbury (1992) as “the system by which companies are directed and controlled”. In a contrasting view, Durst and Henschel (2014) argue for an alternative definition of corporate governance that is not universal in its application but is apposite to small companies. They highlight the danger of using approaches to governance developed primarily for large corporations that are centred upon agency theory, disclosure, reporting and dispersed ownership; concepts and practises which have limited relevance to small businesses (Ansong, 2013). Durst and Henschel propose a definition of corporate governance in small companies as a system that has management and strategy at its foci and,

involves the structures, processes and relationships with relevant stakeholders that help owner-managed firms not only to control the firm but also to facilitate strategic change (Durst & Henschel, 2014, p. 18).

However, other researchers (Clarke & Klettner, 2009; Uhlner, Wright, & Huse, 2007) state that directors of small companies view corporate governance, the context in which planning and control occurs, as being of limited importance or relevance when compared with the imperatives related to survival. Crossan et al. (2015) emphasise that a lack of governance within small companies that is a contributory factor in business failure stating,

many of these failures can be mitigated by the introduction of robust governance structures that would potentially provide better planning and management structures (Crossan et al., 2015, p. 3).

Expressing a similarly strong opinion, Saxena and Jagota (2015) believe that “governance is critical for smaller firms” (Saxena & Jagota, 2015, p. 55).

Nonetheless, it would appear that, in spite of the potentially damaging consequences, many owner-managers fail to act upon an issue that links weak or non-existent governance with business decline and mortality. In seeking to explain this conundrum, Acs, Carlsson, and Thurik (1996) cite Winston Churchill and use a phrase from a speech given in 1939 when they choose to liken small companies to a “a riddle wrapped in a mystery inside an enigma” and in so doing reveal the heterogeneous nature of governance in small companies.

Audretsch and Lehmann (2011) and Lane, Astrachan, Keyt, and McMillan (2006) maintain that there is comparatively little research into corporate governance in small companies, and in particular, into the effect of codes of corporate governance within small companies. They state that such codes, whilst not offering a panacea, could serve as the basis upon which to create a more resilient company and could help small companies to withstand the shock that is likely to occur (Mitroff & Anagnos, 2000). Nevertheless, there is a problem in
that *The UK Code of Corporate Governance*, predominantly designed for large companies, has had limited relevance to the governance needs of small companies (Abu-Bulgu, 2007; Saxena & Jagota, 2015).

Taking up the theme of relevance, Lane et al. (2006) argue convincingly that it would be inappropriate for small companies to adopt a corporate governance code designed for listed businesses that would incur a burdensome and bureaucratic overhead. Clarke and Klettner (2009) support this view and see most of the current corporate governance codes as being a case of overkill for small companies. Furthermore, Gibson, Vozikis and Weaver (2013) and Torres and Julien (2005) caution that there are consequences of ignoring the differences between small companies and listed businesses when considering matters of corporate governance due to the contextual variations and the economic inefficiencies that may be generated. They conclude that it is not a case of “one size fits all”.

In spite of limited awareness and widespread antipathy towards corporate governance by directors of small companies (Crossan et al., 2015; Lane et al., 2006), since 2010 the Institute of Directors (IOD) has been active in promoting and encouraging the boards of small companies to adopt a form of corporate governance that it claims is both meaningful and relevant to the small company. Following consultation with unlisted companies across Europe through the European Confederation of Director Associations (ECoDA), the IOD concluded, that smaller companies — “would benefit from their own corporate governance code” (Barker, 2008, p. 8). Echoing the views of Uhlaner et al. (2007) in the foreword to the IOD code for unlisted companies, the director general of the IOD states that,

the IOD is convinced that appropriate corporate governance practices can contribute to the success of UK companies of all types and sizes, including those that are unlisted or privately held (Institute of Directors, 2010, p. 5).

However, despite a fanfare launch of the IOD Principles, little is known as to the up-take of this code of corporate governance either prior to or since the launch of *Corporate Governance Guidance and Principles for Unlisted Companies in the UK* in 2010 (Barker, 2014). Accordingly, this may offer an opportunity for further research.

3. Risk and crisis management planning in small companies

Risk oversight is a universal requirement in corporate governance codes across the globe (European Corporate Governance Institute, 2015) and calls for a pro-active approach by boards of directors towards risk in all its guises.
Echoing this governance imperative, Ansong (2013) states unequivocally that “Corporate governance and risk management are interrelated and interdependent” (Ansong, 2013, p. 160) whilst Mahzan and Yan (2014) posit that, [small] companies may achieve strategic, tactical and operational efficiency by embracing good corporate governance principles which include risk management and controls mechanism (Mahzan & Yan, 2014, p. 156).

The link between corporate governance and risk is evident in the most recent update of the so-called Turnbull Report, first published in 1999. Although aimed primarily at larger companies, the UK Financial Reporting Council recommend all companies to engage positively with governance processes and procedures related to risk management. The report expresses a principle of universality when it states,

the board has ultimate responsibility for risk management and internal control, including for the determination of the nature and extent of the principal risks it is willing to take to achieve its strategic objectives and for ensuring that an appropriate culture has been embedded throughout the organisation (Financial Reporting Council, 2014, p. 3).

Although the Turnbull Report focussed upon large corporates, Jones (2009) stresses the importance of risk and crisis management planning in small companies. Referring to small companies in the USA, Jones points out that the average life expectancy is about five years. Jones concludes that a structured approach to risk management would extend the company’s lifespan considerably. Expressing a similar view of small companies in the UK, the RSA Insurance report “Growing Pains” reflects the situation described by Jones and states that “in the UK the majority (55%) of new businesses don’t survive beyond five years” (RSA Insurance, 2014, p. 7). This research does however cover all business types and legal structures and includes micro businesses and sole traders.

Similarly, the point made in the RSA report, a UK Government briefing document reveals concern regarding the fragility of SMEs. The report offers advice on the subject of disaster prevention and post-crisis management following an observation that around half of all companies experiencing a disaster and which have no effective plans for recovery fail within the following 12 months (UK Government, 2006). The report proposes that appropriate elements of corporate governance such as enterprise risk management would mitigate the impact and effects of a crisis. That view is supported by The Casualty Actuarial Society Enterprise Risk Committee whose 2003 report describes the pressure of corporate governance upon risk management as being “fundamental and enduring” (Casualty Actuarial Society, 2003, p. 102).
Further, undated evidence from the website of a UK charity, The Cross Sector Safety and Communications Partnership (2014), asserts that commercial fire losses are on the rise and that 85% of small companies suffering a serious fire without a recovery plan close or cease trading within 8 months. Spillan and Hough (2003) cite Pedone (Pedone, 1997) who states that 90% of companies without a plan for recovery will fail within two years post crisis.

Given the weight of evidence as to the consequences of a failure to engage in risk management processes Mitroff and Anagnos (2000) posit that company directors tend to be in a state of denial concerning the likelihood of a crisis event occurring. Atherton (2003) finds that owner-managers have a widely held fatalistic perception regarding externally driven events and influences that may directly impact upon the company and about which they can do little to counteract.

Those impacts, the literature concludes, are such that small companies are disproportionally affected by a crisis than are larger, resource rich enterprises (Corey & Deitch, 2011; Doern, 2016). Despite directors of small companies acknowledging their vulnerability, small companies tend not to have formalised crisis management planning processes (Runyan (2006). Yet, when managers take a pro-active approach to crisis management planning, both crisis prevention and post-crisis survival rates are improved (Conant & White, 1999; Fink 2002; Spillan & Hough, 2003; Vargo, 2011). Chrisman (2013) adds that family firms in particular tend to have better survival rates compared with non-family firms due to greater social capital, low agency costs and greater efficiency.

In summary, the literature finds that corporate governance, risk and crisis management are interconnected phenomena and that, concerning implementation, it is the beliefs and attitudes of the owner manager that are critical (Feltham, Feltham, & Barnett, 2005; Van Gils, 2005). However, management in small companies tends towards a reactionary posture (Budge, Irvine, & Smith, 2008) as a consequence of resource scarcity, (Aleksić, Stefanović, Arsovski, & Tadić, 2013; Brustbauer, 2016) ineffectual planning (Corey and Deitch 2011); limited business skills (Minichilli & Hansen, 2007) and flimsy corporate governance (Faghfouri, 2015; Herbane, 2010; Ricketts-Gaskill, Van Auken, & Manning, 1993). Finally, when considering risk and the possibility of a crisis event, it is a posture of denial and “head in the sand” that prevails (Spillan, 2001) citing (Mitroff, 1989).

Figure 2 demonstrates the linkages between effective and appropriate governance, risk and crisis management within a small company as a partial loop system that lies within an organisational context that acknowledges the influence of culture, operating methods, values and history. However, according to Van Gils (2005) and Feltham et al. (2005), the central driver is the beliefs and attitudes of the owner-manager.
Figure 2. The context and relationships between corporate governance, risk and crisis management

Source: Own work

4. Personal observations

The next section of this paper contains reflections and observations based upon some thirty years of service as a director on the boards of large, medium and small companies across a range of sectors. The vast majority of which were small companies. From my observations there is a distribution of companies with a range of profiles where the high-performing board is the exception and at the very tip of the tail of the distribution with the remainder operating at various degrees of poor practice in both corporate governance and management.

In order to establish criteria against which to assess the performance of boards in small companies I have adopted a baseline from The British Standards Institution’s (BSI) publication BS 13500:2013 entitled “Code of practice for delivering effective governance of organizations”. The reasons for this choice relate to the code’s focus upon practical application to small companies and the abundance of examples, checklists and templates contained within the guide. This code has been the subject of wide consultation and discussion in the design stage. It tacitly acknowledges that there are barriers that hinder the acquisition of knowledge and understanding that impact upon the implementation of innovative corporate governance processes. By implication, it further recognises that corporate governance and directors of small companies are not
comfortable bedfellows. There is very limited research into corporate governance in small companies and what research there is tends not to be well communicated to directors in small companies. Abraham and Allio (2006) would appear to agree with this view stating that,

research is not designed with managers' needs in mind, nor is it communicated in the journals they read…For the most part it has become a self-referential closed system [irrelevant to] corporate performance (Abraham & Allio, 2006, p. 8).

BS 13500 offers practical advice on the matter of corporate governance practice in small companies. Within BS 13500, Annex D, for example, contains a Self-Assessment Checklist that assists and guides directors in determining what is required in order to implement a governance system appropriate to the needs of a small company. Under headings of systems, accountability, direction and control, BS13500 outlines what the BSI consider the actions necessary to conform to the standard. This differs from the IOD’s somewhat discursive approach and is an action-based resource that is easy to understand, to implement and to evaluate.

From my observations over many years, the most critically important point to good corporate governance and good management is a culture of learning and openness to change at all levels. This positive culture will then cascade down the company and lead to strong and positive risk management practice. Whilst the checklists and the procedural matters are most useful in establishing a corporate governance regime, it is the attitudes, values and beliefs of owner-managers and directors that are the foundation stones of effective corporate governance. Furthermore, it is the ability and desire of those key actors to move away from a pre-occupation with the immediate and the urgent, even if only for a relatively short period, in order to develop a regime that has strategy, risk, accountability and policy formulation at its base. And while the outcome of this focused policy is unlikely to be the full corporate business model with a five-year time horizon and backed with sensitivity analyses, the resulting model should, nevertheless, have regard to a timeframe that is strategic in nature yet remaining flexible and responsive to emergent events.

Based upon the BS 13500 checklist, copies of board minutes and a personal diary, I have used word search and simplified thematic analysis to illustrate director attitudes and beliefs concerning corporate governance, risk and crisis management planning in small companies. From this analysis eight themes have emerged independent of the level of engagement and the standards of corporate governance adopted by the respective boards.

The first and overarching theme is that corporate governance is a matter of peripheral concern to directors of small companies. Corporate governance is however, recognised as being of importance but is not perceived as a high a priority matter on which valuable time and resources should be spent. Corporate
governance attracts immediate additional costs where the associated benefits accruing are unclear or, at best, will only to be realised at some time in the future. Corporate governance, beyond that prescribed by the law, is not considered a pressing need but a process that adds another layer to an already burdensome bureaucracy. In summary, corporate governance is an “ok to have” but not “a must have”.

The second theme that emerges is that corporate governance is a function of size and assumes greater importance as the company increases its capital through wider shareholding beyond the founders. Allied to this, an associated driver towards engagement in corporate governance emanates from customers seeking legitimacy in their supply chain through assurances on matters of corporate governance alongside other quality standard markers.

Theme number three accepts that corporate governance has cosmetic value and can be a valuable tool for PR purposes. An independent NED in the role of chairman of the board can add credibility in the eyes of internal and external stakeholders. Although, NEDs in small companies are an expensive item, the appointment of an NED can tilt a board of directors away from an agenda that is largely operational towards the adoption of a strategic posture that inculcates a longer-term vision concerning the future of the business. The decision to appoint an NED suggests directors and shareholders are however positively disposed towards the adoption of a corporate governance model of one form or another.

In spite of a contract that specifies the duties and time commitment of an NED, owner managers tend to have an unrealistic expectation as to what a NED can achieve in one or two days per month. In small, bordering micro, companies the realisation that the cost of one day’s work by an NED often equates to greater than a week’s wages for an operative tends to lead to a significant reduction in interest in the appointment of an NED.

The fifth theme that emerges is that directors often perceive corporate governance as a matter for the company secretary or external accountants. Directors frequently believe that corporate governance is mostly concerned with administrative processes related to the board such as the compilation and distribution of agendas, reports, minutes and other matters related to internal and external compliance.

The sixth theme addresses director attitudes towards risk in the context of sound corporate governance practices. Directors tend to view risk through a narrow prism in terms of health and safety operations, sales, and finance. There is an unfounded belief that risk transfer through insurance cover provides adequate protection. This view concurs with the findings of Simbo (1993).

Theme number seven suggests that the prevalent attitude of directors is one of crisis denial - crises happen to other companies - not to us. Boards overestimate and overstate their coping mechanisms believing that if a crisis occurred it could be easily managed and contained. It is also clear that within small
companies there is limited internal capacity or knowledge to resource, create, monitor and test a crisis management plan.

The final theme relates to the owners’ values. The beliefs, attitudes and values of the owner-manager are the key factor in the perception and adoption of an appropriate corporate governance model. In so embracing, the owner-manager is ceding, *ipso facto*, a measure of control and influence and by extension, is acknowledging a dilution of personal power. For most owner managers this step across the Rubicon requires a fundamental shift of thinking.

**Conclusions**

Scholars have referred to the boardroom as a black box that normally remains securely locked, and accordingly qualitative research is rare with quantitative papers dominating and seeking to compare such as duality and board size with performance. Access restrictions are a significant barrier to those wishing to conduct research into the complex dynamics that prevail in every boardroom and which this paper maintains is a critical element in the way in which small companies control and manage their business affairs.

The complexity and exposure involved in business in the 21st century in the UK and elsewhere demands a rethinking of corporate governance in small companies. The boards of small companies require a clear understanding of how appropriate corporate governance processes can contribute to their success. Within small companies, greater emphasis on the role of corporate governance as the “pilot” rather than the “custodian” is likely to encourage greater engagement. Likewise, there is a requirement to reduce the bureaucratic burden and to see corporate governance as the creation of a point of difference and a source of value acknowledged by all stakeholders. To achieve this, corporate governance therefore has to be meaningful, appropriate, relevant and then recognised by stakeholders as an added-value component within both structure and practice.

Shakespeare, in Romeo and Juliet asked, “What’s in a name?” albeit not in the context of corporate governance. My conversations with owner-managers suggest that the term “corporate governance” carries with it connotations that are largely negative. An Encarta synonym search of the two words reveals firstly, “relating to a corporation”, “relating to a group”, “designed for or suitable or associated with people who work for large corporations” and secondly “control or authority”, “the act or state of governing a place”. Whilst the term corporate governance may be well suited to large organisations there is, I believe, scope to develop a more relevant and user-friendly nomenclature with which small companies can identify and relate.

Even the smallest of UK companies engage with both real and virtual networks that operate ceaselessly in a global context across time zones allowing
them to serve customers and create profits. More than ever those complex and rapidly changing circumstances call for organisational resilience as uncertainty, exposure and the effects of close-coupled systems become the normal parameters of trade and enterprise. Again, meaningful, appropriate and relevant corporate governance can contribute to this resilience.

Small companies that choose to appoint outside directors in a non-executive capacity are by implication, frequently looking for an agent to challenge the status quo and create that point of difference that speaks to customers and suppliers alike. The anticipated outcome of an NED appointment is one of tacit assurance of a big, small company (Torres & Julien, 2005) and one that improves its chances of withstanding the misfortunes that are likely to occur.

Seen through the personal experience of the author, it appears that owner managers of small companies have a desire to manage their business to a high standard and in so doing to protect their personal circumstances. Although bodies such as the IOD recognise that appropriate and value-based corporate governance is a means through which this might be achieved, there is nevertheless a prevailing level of cynicism that dilutes the willingness to engage with the processes of corporate governance. It is therefore incumbent upon both scholars and those in the field to make the case and to communicate it in appropriate language and via appropriate channels.

References


Mitroff, I. e. a. (1989). Do some organisations cause their own crises. *Industrial Crisis Quarterly, 3.*


RSA Insurance. (2014). *Growing pains – how the UK became a nation of “micropreneurs”.*


