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Geneviève Vigneault, is co-leader of the Corporate Governance and Compliance Team

CORPORATE GOVERNANCE CAN BE GOOD FOR BUSINESS

Governance, as defined by author Gérard Charreau, is “all the organizational mechanisms that define the powers of executives and influence their decisions; in other words, mechanisms that ‘govern’ their conduct and define their discretionary freedom”.

Although awareness of this concept has increased over the past few years, the same cannot be said about its popularity, especially among entrepreneurs in the private sector.

Publicly-traded companies, paragon-governmental and governmental bodies and not-for-profit organizations have more of an interest in governance. But what about SMBs in Quebec? Is governance too costly and therefore unattainable for them? Should they wait until they are listed on a stock exchange or reach a certain size and a certain sales level before thinking of setting up a governance policy?

Many entrepreneurs consider governance a restrictive process that slows down decision-making because it introduces rules and oversight mechanisms. While it is true that a rigid governance structure that is not well-suited to the corporate culture could stifle spontaneity and slow down management, when governance is well thought-out and suitable for the business, it becomes an essential tool that contributes to growth and operational stability. It can add to a company’s value and even support it in the current economic context.

Different governance tools can be set up depending on a company’s resources and needs. For example, simple and effective control measures

can be introduced in each department of a company. Making these control measures known to business partners (financial institutions, suppliers, customers, employees and consultants such as accountants and legal advisers) sends the message that the company is more organized and has achieved a certain operational maturity.

One of the most sophisticated governance tools is undoubtedly a board of directors made up of outside members that holds regular, planned meetings. However, for this tool to be a true factor in a company’s success, certain parameters must be set up.

A board’s role

A board of directors has an oversight role as well as a “managerial” function. The board should not intervene in the day-to-day operations of the business. It is there to help management from a long-term perspective, for example by contributing to the development and implementation of a strategic plan. It can then oversee the plan and help steady the course, or even adapt it when times are difficult. Having good directors also helps free executives from important tasks which they cannot perform on a daily basis, such as thinking about how to retain key employees, studying new markets or analyzing different ways of competing with rival

companies. For this body to be of value, it is important for the board’s roles and functions to be defined from the outset and that they be in keeping with the corporate culture.

Choosing directors

Good directors with complementary strengths can only be chosen after analyzing the company’s needs. It must be determined which individuals will contribute real value on the board.

If, for example, the main needs are business development and increased sales, the presence of at least one individual with abilities and experience in these areas should be a priority. Experience, understanding of the business and its sector, and connections to a strategic network are some of the factors that should guide the choice

of directors. However, the directors must be reassessed periodically and even replaced if they no longer contribute to the company’s value.

Due to their experience, the directors provide valuable benefits to the company and its management. The executives can discuss problems with qualified and objective individuals and question decisions they normally make alone. Doing so can help them manage business risks and human resources, and reassure their business partners. Having an effective and experienced board demonstrates that the company

Is governance too costly and therefore unattainable for SMBs?

has a certain level of organization and a developed network. This increases the company’s chances of selling a project and accessing financing, and can even give employees more confidence.

This framework also tells future purchasers that a mechanism to structure the company’s decisions has been set up and that the company’s value is therefore no longer based solely on the decision-makers but on an organized decision-making process. It is reassuring for a third party purchaser to know that the departure of a key individual will not cause the company’s decision-making to collapse.

The costs involved (insurance, attendance fees payable to the directors and related expenses), the fear of sharing decision-making power as well as the effort required are often the main reasons for not setting up such a board for a SMB. Nonetheless, it should be seen as an investment that will be a strong source of value for the business.

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