Small companies, governance and lots of tape – mainly red!

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The director or owner-manager of a small business wears many hats – Chief Accountant, Managing Director, Marketing Executive, HR Manager, Head of IT, Chief Risk Officer, Production Supervisor, Cleaner, Telephonist and more. Beyond ensuring the survival of the business, he or she must also ensure that there is compliance with a wide range of laws, regulations, procedures, directives, codes and best practice protocols as well as providing a safe working environment for employees that complies with all the regulations and legislation that apply generally or have specific relevance to a Standard Industry Classification (SIC) code.

This paper considers the relationship between externally generated requirements from Government, its agencies or proxies and how this plethora of paper is perceived by owner-managers of small companies.

There follows an examination of the nature and dynamics of small companies together with indications of the sheer complexity and quantity of laws, rules, codes and protocols that are mandatory in application and observance. As such, this leads to "task-conflict" and the "prioritisation quandary" in "resource-limited" small enterprises where the owner-manager plays many roles from Managing Director to Factory Cleaner.

The final part of the paper takes a deep dive into the way in which governance of small companies is practised and asks whether it is a help or a hindrance in achieving the principal objective of the owner-manager – that of commercial survival, whilst at the same time being able to feed the regulatory leviathans or in resignation, place the telescope over the blind eye, don the ear defenders and sing La La!.

From my own research into small companies (Spiers 2017), owner-managers are clear that compliance can be both daunting and time-consuming and because of those concerns it is frequently perceived as *"I know I must do it but I have orders to meet, invoices to send, metal to bend and people to tend….etc. etc*." resulting in procrastination, obfuscation, delay, obstruction, avoidance and, at times, outright evasion. Rather like taxes and death, compliance is however unavoidable!

An indication of some of the “red tape” affecting both large and small businesses is shown below by way of a summary of the major legislation of recent years. (Plenteous other laws are of course readily available!)

Management of Health and Safety at Work Regulations 1999; Related: How To Handle Employee Off With Work Related Stress;

Workplace (Health, Safety and Welfare) Regulations 1992; Health and Safety (Display Screen Equipment) Regulations 1992; Manual Handling Operations Regulations 1992; Provision and Use of Work Equipment Regulations 1998; Personal Protective Equipment at Work Regulations 1992; Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 1995; Employment Rights Act1996
Working Time Directive 1999; Working Time Regulations 1998; National Minimum Wage Act 1998 Related: Paying Wages & Sick Pay for Employees During Covid-19 Equal Pay Act 1970; Equality Act 2010.

Employment Relations Act 1999; Sex Discrimination Act 1975/1986; Race Relations Act 1976/2000; Disability Discrimination Act 1995/200; if you employ more than 20 people.
And the Data Protection Act 2018 that requires that:

- The director must ensure the data is used fairly, lawfully and transparently
- used for specified, explicit purposes, accurate and kept up to date
- used in a way that is adequate, relevant and limited to only what is necessary
- kept for no longer than is necessary
- handled in a way that ensures appropriate security, including protection against unlawful or unauthorised processing, access, loss, destruction or damage

Table 1 indicates six examples of the sheer volume of legislation with which the owner-manager of a small company must be familiar without the benefit of staff specialists or expensive external consultants to advise– and of course, ignorance is no defence!

Table 1: Selective Legislation relevant to business and the respective sizes of the act

Act	Number of Pages (ascending order)
Bribery Act (2000)	19
Freedom of Information Act (2000)	82
Health and Safety at Work Act (1974)	121
Equality Act (2016)	251
Data Protection Act (2018)	339 (including 20 Schedules)
Companies Act (2006)	976

Source: https://www.legislation.gov.uk

Such voluminosity is a huge disincentive for owner-managers to delve into the pages of these Acts to seek out their demands and discover the punishments in what is an all-consuming work environment that is an unending pressure cooker of sales and production-focussed activity.

To fully appreciate the ambivalence of many small businesses owners towards regulation and compliance, including the misnomer "Corporate Governance", it is necessary to look beyond the obvious explanations and bar-room solutions and to examine the wider issue of governance outside the context with which it is normally understood, namely that of large, listed corporations.

In common with much of the world, UK Small and Medium Sized Enterprises (SMEs) -those with 0-249 employees - represent about 99.5% of all businesses with the bulk of those entities being sole traders, many of whom may have adopted a so-called "lifestyle business". Governance and its derivatives, to many owner-managers of those entities, has an etymology that is associated with Colonialism, Prisons, Central Banks and Oppression. As such, an alternative term with a more positive connotation may well be of benefit and accordingly, I suggest that all SMEs conduct a "word find" on "Corporate Governance" and "replace" it with "Boardroom Brilliance"!

In the UK, as Table 2 indicates, in 2019 there were 5.867 million businesses of which 5.86 million were classified as small to medium sized enterprises of which 4.457 million had no employees. The legal format of most of those businesses is either that of a Limited Liability Company or unincorporated entity whilst others may have adopted charitable or similar status. Irrespective of their legal structure they are all, by and large, subject to rafts of regulation in a range of guises. Acs et al. (1996) cite a speech given in 1939 by Winston Churchill when they liken small companies to “a riddle wrapped in a mystery inside an enigma” and in so doing reflect and amplify the complex and diverse nature that pertains to small companies (Culkin and Smith 2000; Haugh and McKee 2004; Kotey and Slade 2005).

This so-called “riddle” encapsulates the personality-driven, reactive and loosely structured nature of small companies and whilst much of the literature views small companies through the formal lenses of structure, process and strategic orientation, researchers frequently assert that it is the influence, attitudes, idiosyncrasies, values, beliefs and behaviours of the founding owner-manager that decide upon the character, culture and governance of a small company (Deakins and Freel 2006; Uhlaner et al. 2007c; Lobonţiu and Lobonţiu 2013).

Table 2: Estimated number of businesses in the UK private sector, associated employment and turnover (by size of business at December 2019).

	Number of Businesses	**Employment**	**Turnover (£m)**
All businesses	5,867,770	27,498,000	4,149,973
All SMEs (0-249 employees)	5,860,085	16,630,000	2,168,005
Small and micro businesses (0-49 employees)	5,824,500	13,157,000	1,528,684
0 employees	4,457,820	4,835,000	304,508
1-9 employees	1,155,385	4,206,000	595,013
10-49 employees	211,295	4,116,000	629,163
50-249 employees	35,585	3,473,000	639,321
250+ employees	7,685	10,868,000	1,981,968

Source: UK Government, Department of Business, Innovation and Skills: Business population estimates for the UK and Regions, December 2019

Yet whilst management structures in small companies are frequently little more than a reactive adhocracy (Coulson-Thomas 2007), the vagaries of unitary control in a personality-dominated structure seem to offer contemporaneous contrasts of opportunity and risk, simplicity and complexity and dynamism and stagnation (Hmieleski and Baron 2009). Hence Gibb and Davies (1992) note that the personal goals, beliefs and attributes of the founding owner-manager of a small company are instrumental in determining the culture of the company, its orientation towards risk, compliance and regulation and its vision of the future (Gibb and Davies 1992). However Gibb and Davies (1992) resist over-emphasising a characteristics model and propose a contingency approach "that concentrates not upon the characteristics of the entrepreneur-be they social, psychological, or economic - but his/her behaviours"(Gibb and Davies 1992, p.8). In so doing they acknowledge that different types of behaviour, traits, skills and decision-making competencies are required due to the degrees of uncertainty and intricacies in the marketplace.

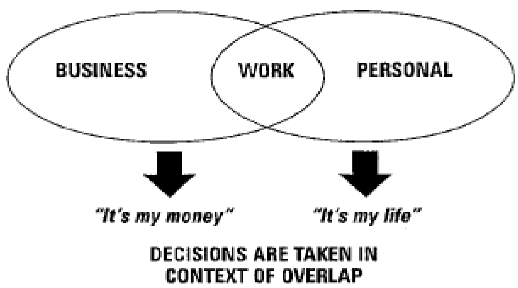
Gibbs and Davies (1992) add that knowledge and skills are underdeveloped in small companies and that as money invested in the business is, in some measure, derived from personal resources rather than from distant and impersonal investors, this results in a parsimonious attitude towards expenditure that is not perceived as a direct profit-related expense. (The £40.00 fee payable annually to the Information Commissioners' office and similar fees are often viewed in this light).

Training and compliance are further such examples where both time and expenditure are made more in hope than expectation, and outcomes are viewed as uncertain and distant when compared, for example, with purchases of raw materials.

It is possible to conclude that Acs et al (1996) liken small companies to an enigmatic conundrum as a consequence of a key characteristic of such enterprises: namely that of opaqueness and its resemblance to a black, impenetrable box. Small companies are not subject to external audit nor detailed reporting and disclosure in the wider public arena as are their large counterparts. Changes in reporting requirements with effect from January 2016, require most small companies to submit abbreviated financial information to Companies House in the form of a signed balance sheet although more detailed information must be provided for HMRC and the shareholders, who are in many cases the directors themselves. Consequently, in part due to restricted publicly available documents, empirical research into the inner workings and dynamics of small companies is limited and accordingly a pre-requisite to such research into these enterprises is the open-handed participation of the owner-manager.

Owner-managers, whose personalities, ambitions and values are embedded within each and every element of a small firm can rarely be detached from the role of key decision-maker in the process of governing (Haugh and McKee 2004; Kotey and Slade 2005; Carter and Jones-Evans 2006). Therefore, to explore governance within the operational, tactical and strategic functioning within a small firm, where the influence of the owner-manager within a compressed hierarchy is ubiquitous must be understood. Given that it is the owner-manager who ultimately decides upon such matters as the legal form and location of the business as well as funding, risk and product related issues, it is axiomatic therefore that the lynchpin around which everything revolves is the owner-manager themselves, and as Culkin and Smith state, "the heart of the small business decision-making unit is essentially the owner/manager" (Culkin and Smith 2000, p.148). Culkin and Smith (2000) do however acknowledge that as the enterprise grows, decision-making and leadership will become decentralised and distributed as other directors and senior managers are appointed, but nevertheless they note that for the owner-manager and principal risk-taker, the business and personal spheres remain inter-related, see Figure 1.

Figure 1: Overlapping spheres of interest in small companies



Source: Culkin and Smith (2000)

Overlapping of the twin spheres of "business" and "personal" is exemplified by the close coincidence of ownership and management interests residing in the hands of the owner-manager (Long et al. 2005), or the cadre of owner-managers, which, in practice, limits the likelihood of behaviours associated with the widely-accepted notion of agency theory (Bennett and Robson 2004; Karoui et al. 2014) where the interests of the shareholders and the interests on managers acting on their behalf are not congruent. Hence, in view of the foregoing it may be argued that there is little need for outside directors to exercise the control function of the board. Nonetheless, Bartholemeusz and Tanewski (2006) point out that there is however an agency issue within small companies that adopts a different guise to the traditional model proposed by Jensen and Meckling (1976). What may be called "the issue of internal agency" occurs when salaried directors are appointed in addition to shareholder directors and notwithstanding their equal status in law, a *de facto* dyadic relationship is created where the two conjoined parties may assume differing attitudes on matters such as remuneration, expense allowances, pension provision, transport, socio-economic wealth, commercial objectives and matters of asymmetry of information. In particular, the question of deciding upon dividend distribution is a sensitive matter due to the intimate working relationships existing between shareholding-directors and non-shareholding-directors.

A further issue of overlap concerns the dual roles of ownership and control performed as both shareholder and director where limited liability status does little to protect the owner-manager who will, in either the role of shareholder or director in many cases, have given personal guarantees as loan collateral thereby increasing exposure to risk (Ang 1991) unlike his fellow salaried directors.

An additional and ever-present characteristic of small companies relates to the issue of specialisation. Unlike large enterprises, where specialists are to be found in areas such as Human Resource Management, IT, Marketing and Purchasing, small companies tend to be resource limited and accordingly owner-managers are intimately engaged, often as enthusiastic and well-intentioned amateurs, in a wide range of activities from the mundane and work-a-day to matters of compliance and strategy (Culkin and Smith 2000; Carter and Jones-Evans 2006, p.419).

This "Swiss Army Knife" approach is the norm in many small companies as Kotey and Slade (2005) note that In small companies, owner-managers undertake "most business activities themselves or directly supervise the performance of these activities." (Kotey and Slade 2005, p.19). Such tinkering can however prove costly to the well-intentioned amateur.

Skill shortages or merely a lack of interest, awareness or concern inevitably leads to a “task hierarchy” whereby tasks deemed critical to survival are prioritised and those perceived to be of lesser importance are relegated to the rear of the queue.

Such determinism accords with Maslow’s Theory of Hierarchical Needs where survival, safety and security dominate and matters such as self-esteem, sociability and altruism can only begin to function once basic needs have been satisfied.

Figure 2: Task Hierarchy for an owner-manager of a Small Company

Tier 1 Finance Obtain and manage working capital.

Tier 2 Selling and revenue generation. Get Sales and develop the sales pipeline through marketing activities.

Tier 3 Keeping Track of Cash Flow Monitor and manage cash flow. Monitor and improve workflow

Tier 4 Looking After Your People (if any) Hire and train and motivate the team.

Tier 5 Purchasing Resources and Supplies Manage stock items and work in progress.

Tier 6 Making the Product or Service Make daily calls to suspects, prospects and customers.

Tier 7 Risk and Business Continuity

Tier 8 3rd Party administrative tasks with little or no perceived value added

Source: Author

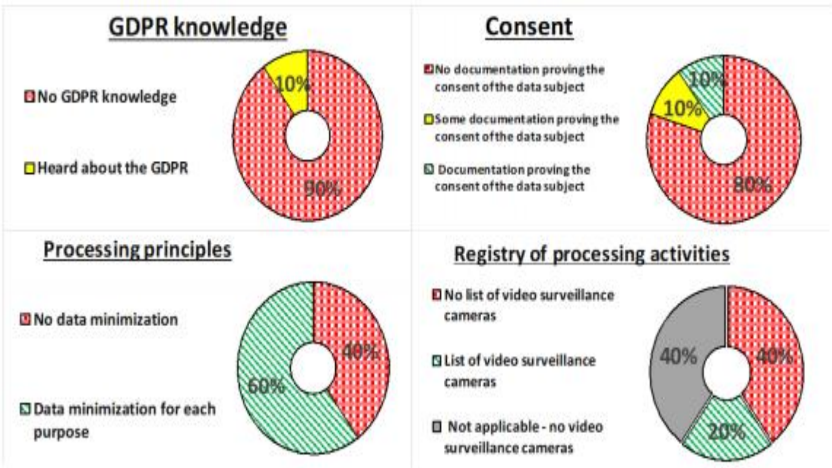
An example of a task hierarchy list is illustrated in Figure 2 above. From my own research conducted with small business owners in domestic heating, cultural holidays and education services, the evidence concerning compliance and spending time dealing with regulatory matters is that such matters are viewed as a distraction from the main event in spite of an awareness that they must be carried out.

Dealing with the complexities of data governance as perceived by owner-managers in small companies, Begg and Ciara (2012) posit the need for appropriateness, stating.

> “While most data governance frameworks claim to be adaptable and scalable, there are few, if any, notable cases of frameworks being applied to SMEs. Given the important contribution that SMEs make to economies world-wide, and their ever-increasing reliance on data as an enabler of more effective performance, there is a need to explore SME awareness and understanding of data governance.” (Begg and Ciara 2012. p.7)

Freitas and da Silva (2018) furthermore claim that there is much to be done to improve awareness of data protection in SMEs and given the low base of understanding and compliance amongst their research cohort of ten small companies based in Portugal, it is easy to assume that this is a gross understatement. It nevertheless reflects the antipathy of owner-managers to non-revenue producing activities and the lack of perceived value in spending time on such matters. Figure 3 gives details and shows that 90% of interviewees had no knowledge of GDPR.

Figure 3 GDPR Compliance in SMES



Source: Freitas and Da Silva (2018)

Small companies are fragile, resource limited and lack resilience. It takes relatively little by way of perturbation to end their lives and trading opportunities. Expanding the work of Culkin and Smith (2000) regarding the link between the business and private spheres in small companies, Carter and Jones-Evans (2006) state that the penalties of failure in such enterprises vary with the degree of personal commitment, the availability of other income streams or employment opportunities and the nature of social provision. They stress that risk is a distinctive feature of a small company and that failure "usually involve[s} high personal cost"(Carter and Jones-Evans 2006, p.35). It is small wonder therefore that the survival mode is so dominant in the mind-set of the owner-manager who has so much to lose.

Jones, referring to SMEs (which includes small companies) in the USA states,

> "The history of SMEs is one where many have gone but few have succeeded. The average lifecycle of many SMEs is in the region of five years or less" (Jones 2009, p.3)

In a similar view of small businesses in the UK, the RSA Insurance report "Growing Pains" reflects the situation described in the USA by Jones and states that in the UK around 55% of new businesses do not survive beyond five years (RSA Insurance 2014). Likewise, Gray, Saunders and Goregaokar (2013) state that after five years, fewer than 45% of businesses will have survived. They add that "small firms are more likely to die than larger firms".(Gray et al. 2013, p.1)

Alluding to survival rates, a Higher Education Funding Council for England (HCFCE) report concerning small companies situated in Dorset, a rural county in the UK, states that between 2011 and 2014 there were 1,988 start-ups with 57%, (2% greater than the UK norm), remaining in business after three years had passed (Bonner et al. 2015). A total of 5.8% of companies within the same time period reached a turnover in excess of £1.0m thereby suggesting that there are significant barriers relating to achieving growth within the small company sector (Lee 2011)

Other researchers aver that such rates of attrition are not only destructive at a personal level (Drummond and Chell 1994; Bodmer and Vaughan 2009) or at the level of the enterprise itself, but, agglomerated have far-reaching implications for employment, wealth creation, supply chain fragility (Sterling 2011) and wider society (Spillan and Hough 2003; Kurschus et al. 2015).

Emphasising this point, a UK Government briefing document reflects concern regarding the resilience of small companies, half of whom have no plan for managing a crisis or for recovery post-crisis event. (UK Government 2006c). Spillan and Hough (2003) state that 90% of businesses without a plan for recovery will fail within two years of a crisis event. Whilst undated evidence from the website of Cross Sector Safety and Security Communications, (CSSSC) a national charity, asserts that commercial fire losses are on the rise and that 85% of SMEs suffering a serious fire never recover or cease trading within 8 months (The Cross Sector Safety and Security Communications Partnership 2014).

Such details point towards the physical and psychological aspects relating to recovery and the hill that has to be climbed in order to recommence trading. This also underlines the central point of this paper which is that the sales and survival functions dominate the small business owner's agenda even to the extent, for example, of planning for a crisis, forgetting the insurance payment and putting risk on the “back burner”.

Summarising the status of small companies and their tendency towards fragility, the literature concludes that managers default to a reactionary posture (Budge et al. 2008); resources tend to be scarce (Aleksić et al. 2013); planning is weak (Corey and Deitch 2011); and that business skills and governance are lacking (Ricketts-Gaskill et al. 1993; Herbane 2010; Faghfouri 2015).

Having reviewed the nature of fragile small companies, the focus of this paper moves on to consider the definition of corporate governance and the issues related to both its theory and practice in its widest context and then examines how and in what forms this may apply, or not, to small companies.

Corporate governance (CG), the derivation of which is the Latin verb *“gubernare”* meaning to steer, is the broad term that describes the processes, customs, policies, laws and regulations that directs the boards of companies and organisations with regard to the means by which they administer and control their business. It is the mechanism by which boards of directors seek to achieve the aims and objectives of the organization and manage often complex relationships with a wide range of internal and external stakeholders.

There is a wide range of views as to the nature and scope of corporate governance. Some definitions focus upon the legal aspects, (Johnston 2004) others emphasise the relationships of the entity with a wider stake-holding and corporate social responsibility (Mason and O'Mahony 2008) whilst a third stream of thinking on corporate governance references the internal processes as a schema within which the board is encouraged, or required, to operate (Seidl 2006; Wymeersch 2006).

Pieper (2003) distinguishes between “goal-orientated” definitions which strive to determine the aim and outcomes of corporate governance whilst “task-orientated” definitions focus upon the tasks that must be undertaken in order to meet the ultimate goal. Pieper (2003) adds that within the nature of the tasks to be undertaken there is a dimensional aspect relating to scope that he identifies as being either “narrow” or “broad”, (Pieper 2003, p.3) the former of which are allied to a shareholder model whilst the latter is aligned to a stakeholder model.

Such restricted cognition has failed to appreciate the subsequent and developing diversity of business ownership structures, management, direction and governance. It is not difficult to conclude that until the second decade of the current millennium the entire dialogue concerning corporate governance and the work of boards is one in which the directors of small companies have been marginalised to the extent that they have not even been in the room whilst the conversation has been taking place!

Levrau and du Bus (2014) challenge the normative view of corporate governance as a valuable resource and pose the question as to why corporate governance, if it has intrinsic value, is largely viewed with negativity within small companies and suggest that it is often linked to,

> "establishing order where there is none; integrating discipline where there seems to be confusion; infusing fairness where there is egregious greed; and protecting shareholder interests where there is abuse" (Levrau and du Bus 2014, p.1)

They argue that for companies that view themselves as well-managed, ethical and vanilla in their purpose, corporate governance appears to be associated with bureaucracy, inefficiency and waste and as such, codes which are fundamentally designed for listed companies, and which appear to have failed in curtailing executive excess, offer an uninviting prospect.

In spite of referring to negative attitudes by owner-managers of small companies, Levrau and du Bus (2014) present the view that there is, nonetheless, an inherent relationship between good governance and the long-term success of small companies. They claim that the purpose of appropriate governance models is,

> "not to disarm the capable entrepreneur of his/her ability to take good decisions, but rather to strengthen those elements" (Levrau and du Bus 2014, p.1).

Levrau and du Bus (2014) see the value and contribution of corporate governance in a small enterprise as that of a stepping-stone to business development and growth and preparation for the day when the capacity of the owner-manager will be such that a single-handed approach will not be sustainable and to continue as such could be a pre-cursor of failure. They suggest that the output of the resource that is corporate governance will be "increased discipline, professionalism and long term survival" (Levrau and du Bus 2014, p.1). This statement may appear to some to be an axiomatic, self-evident truth, yet in spite of the advantages claimed by proponents of corporate governance, amongst owner-managers of small companies there nevertheless remains a stubborn resistance towards the adoption of corporate governance principles at any level (Miller et al. 2013).

In an article published by the Institute of Directors entitled "Why good governance is a must for SMEs" in its February 2017 edition of "The Director", the contributor, Estelle Clark, counters the resistance that prevails in small companies concerning corporate governance and writes that "it is as relevant for a company of five people as it is for 5,000." (Clark 2017, p.17). Clark (2017) adds that she would like to see governance in small companies to be on "the agenda for every company, not just those listed on the Stock Exchange." (Clark 2017, p.17).

Whilst most of the corporate governance literature is concerned with public companies, the vast bulk of UK businesses, both incorporated and unincorporated, are private companies the majority of which are small companies and sole traders (See Table 1).

Both the UK Corporate Governance Code and the abridged, less demanding, Alternative Investment Market (AIM) Code are however primarily designed for, and apply to, listed public companies. These codes are an integral part of listing rules. Accordingly, Lane et al (2006) and Saxena and Jagota (2015) believe that adoption of such codes by a small company would be inappropriate and would likely incur a burdensome and bureaucratic overhead. Relating to small companies in the USA, Lane et al. (2006) pose a rhetorical question and ask,

> "What is the significance of these governance reforms, de jure and de facto, for the publicly held corporation's distant, smaller but economically robust brethren – namely the closely-held, family-owned business? Should these family owned entities be held to the same governance guidelines and standards that apply to those firms making up the ranks of the Fortune 500 for example?"(Lane et al. 2006, p.147)

Gibson et al. (2013) and Torres and Julien (2005) likewise note that there are consequences of ignoring the differences between small business and publicly quoted firms when considering matters of corporate governance due to the contextual differences and the economic inefficiencies generated, (Torres and Julien 2005; Gibson et al. 2013). Clarke and Klettner (2009), referring to codes designed for quoted companies support this view and argue that there is an inequitable financial burden through transaction costs related to corporate governance activities foisted upon smaller companies that creates economic inefficiencies, and that widely differing contexts do not warrant such an imposition, (Clarke and Klettner 2009).

Beyond the uncertain world of early stage growth when (or if) a company, having survived the pains of birth and infancy, moves through the cycle from “micro” to “small”, more formal corporate governance arrangements are however likely to feature as a matter of increasing interest to the board as a means of managing and mitigating risk (Ansong 2013). The adoption and implementation of an appropriate set of corporate governance principles “in toto”, or amended if need be, can be a critical tool in creating and enhancing resilience, developing resources and contributing to competencies (Abor and Adjasi 2007). For example, the 2012 Chartered Management Institute survey into Business Continuity Management (BCM) concludes,

> “Corporate governance remains the biggest external driver of BCM, with 42 per cent of managers highlighting it as a catalyst for their organisation implementing or changing BCM. ” (Pearson and Woodman 2012, p.4)

Despite the number and disparity of small companies and their productive contribution to the economy, there is comparatively little research into corporate governance in this sector (Lane et al. 2006; Uhlaner et al. 2007b; Siebels and zu Knyphausen-Aufseß 2012; Saxena and Jagota 2015). Furthermore, Lane et al (2006) claim that not only is there a general lack of research into small companies but that, in particular, there is also a paucity of research relating to the usage and application of corporate governance codes within small companies (Lane et al. 2006).

Despite the claims of limited research into the functioning of codes, researchers have nevertheless seen small companies as being somewhat homogeneous in their operating mode, (Brooksbank 1991) intuitive in their approach and dominated by the owner-manager (Torres and Julien 2005) thereby implying a universal yet informal *modus operandi* as to governance and strategy. However, Curran and Blackburn

(2001) state unequivocally that this is not the case, and tacitly support the paradigm of the elasticity of small companies and their concomitant fuzzy characteristics. They write,

> “Small enterprises have an extreme range of forms. They operate in every sector of the economy, from computer software to candle-making and from insurance broking to instrument manufacturing. Entrepreneurs and owner-managers come from different genders and/or a wide range of ethnic, cultural and educational backgrounds and from every age group.”(Curran and Blackburn 2001, p.6)

Thus, corporate governance for this array of small companies represents something quite different in both meaning and application compared to the onerous and costly compliance requirements and standardised obligations of large organisations and the associated implications of agency theory (Pieper 2003; Gibson et al. 2013). Contingency theory proponents such as Aguilera et al (2008) and Uhlaner et al (2007) argue however that the governance regime for any given entity needs to be appropriate and relevant to both its circumstances and context (Uhlaner et al. 2007b). Uhlaner et al (2007) also point out that there are few formal contracts in small companies and that social control behaviour amongst directors and managers is prevalent. Hence they propose that governance procedures are based around stewardship assumptions rather than exercised through an alternative, prescriptive model (Uhlaner et al. 2007c).

Vandekerkhof et al (2011) lend weight to the argument proffered by Uhlaner et al (2007) when they state that small businesses, and especially family firms, display normative isomorphism as a consequence of intimate relationships and, as such, the relevance of formal corporate governance such as that propounded across codes is diminished. Vandekerkhof et al (2011) however, point out that as the business grows and outside managers are recruited, so the significance of personal relationships and socio-economic wealth diminishes as professionalism takes on the mantle of moderator and hence a new and more structured corporate governance paradigm emerges. Yet, preferring relevance and relationships to rigidity, Durst and Henschel (2014b) argue for a definition of corporate governance that is fit for purpose with regard to small companies and call attention to the danger of using concepts of corporate governance related to large corporations. Durst and Henschel

(2014) then go on to define corporate governance in small companies as a system that,

> “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 and Henschel 2014b, p.18)

Stressing the need for a pro-active engagement in corporate governance practices in small companies, Saxena and Jagota (2015) believe that “governance is critical for smaller firms” (Saxena and Jagota 2015, p.55). However, other researchers challenge this view and claim that empirical evidence has failed to confirm that in family controlled small businesses in particular, there is a positive impact on performance as a consequence of good corporate governance (Seidl 2006) . Researchers point to the distinctive characteristics of small, family-controlled companies that differ from those of managerial-controlled small companies (Gómez-Mejía et al. 2007; Chrisman et al. 2013) where, in the former, the importance of socio-economic wealth establishes legitimacy and can override the goal of economic gain.

Contrary to the widely held view that corporate governance must be contingent, Maassen (2004) proposes that certain elements of corporate governance principles are universal and can be as relevant to small companies as they are to their larger counterparts. In his work on corporate governance in Macedonian small businesses, he states that practices such as transparency, openness and corporate social responsibility are important manifestations of mature approaches to corporate governance and are, accordingly, germane in attracting finance. Such a position is consistent with both Stakeholder Theory and the view of practitioners as stated in the preamble contained within the Institute of Directors’ Corporate Governance Guidance and Principles or Unlisted Companies in the UK which states that,

> “Good governance can also play a crucial role in gaining the respect of key external stakeholders - even unlisted companies have to devote attention to their stakeholder responsibilities.” (Institute of Directors 2010, p.6)

However, directors of small companies tend to view corporate governance as being of limited importance or relevance compared with the imperatives related to survival (Uhlaner et al. 2007b; Clarke and Klettner 2009). Yet Crossan et al (2015) point out that a lack of governance in small companies is a contributory factor in business failure stating,

> "Many of these failures can be mitigated by the introduction of robust governance structures that would potential[ly] provide better planning and management structures"(Crossan et al. 2015, p.3).

Steier et al. (2015) add to this view and state that

> "Governance is widely recognised as a key determinant in the success and failure of all organizing activity" (Steier et al. 2015, p.266)

The literature in this respect points towards a lapse on the part of owner-managers to recognise, appreciate and act upon the issue of causality that links failures of corporate governance to business decline and mortality. Seeking to unwrap this fundamental contra-intuitive paradigm that appears to be the antithesis of rationality represents a challenge to owner-mangers concerning the nature, scope and adoption of corporate governance in small companies.

In spite of limited awareness and widespread antipathy by directors of small businesses towards corporate governance (Lane et al. 2006), the Institute of Directors (IOD) are nevertheless promoting and encouraging the boards of small companies to adopt *appropriate* forms of governance procedures that go beyond a mechanistic, box-ticking approach that assumes the agency problem.

Barker (2008) in an IOD Briefing Paper notes a fundamental issue,

> "However, the governance of SMEs is not subject to the same sort of dialogue with institutional investors as is the case with larger companies."(Barker 2008, p.7)

The IOD goes on to observe that, referring to the Combined Code (now the UK Code of Corporate Governance - UKCGC), "An alternative approach would be to develop an alternative code of best practice for smaller companies"(Barker 2008, p.8). The IOD then concluded that smaller companies would gain benefit from a bespoke corporate governance code in preference to the Combined Code (Barker 2008).

Adding to Barker's words, Clarke and Klettner (2009) refer to the pervasive governance model which for many smaller operators is an unwanted imposition whilst Uhlaner et al.(2007) use contingency theory to propose that "the appropriate governance design for a particular firm likely depends on the context" (Uhlaner et al. 2007b, p.227).

In the foreword to a governance code for unlisted companies entitled "Corporate Governance Guidance and Principles for Unlisted Companies in the UK" (2010), 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).

Prior to November 2010, the launch date of the IOD's Corporate Governance Guidance and Principles for Unlisted Companies in the UK, the UKCGC and its antecedents, together with the Quoted Companies Alliance (QCA) AIM code – first published in 2005, were the only UK reference sources for companies wishing to adopt a recognised national governance code. (Others codes such as the Belgian Code Buysse (Buysse 2009) had however been published outside the UK). Corporate Governance Guidance and Principles for Unlisted Companies in the UK does not have at its heart a "comply or explain" requirement but seeks to promote appropriateness based on practices and processes that add value, ensure resilience, profitability and sustainability. This notion is expanded by the IOD referring to corporate governance codes serving the twin role of "watchman and the pilot" and in the case of the SME, the dominant role being that of the "pilot" (Barker 2008, p.3).

Despite a fanfare launch of the IOD Principles, little is known as to the up-take of codes of governance of any kind within small companies either prior to or since the launch of Corporate Governance Guidance and Principles for Unlisted Companies in the UK in 2010 (Barker 2014). Additionally, according to Ponomareva and Ahlberg (2016) and Seidl (2006) there is a paucity of research that supports the normative assumptions that underpin codes of corporate governance as having value thereby raising an opportunity for further investigation.

Reflecting a murmuring of interest in corporate governance amongst small firms and the need for relevant and appropriate processes, the British Standards Institution (BSI) published a code of practice, BS 13500:2013 for delivering effective governance of organisations stating,

> “In a small organisation, there may be only a sole trader who owns, governs and manages their business. Complex, formal arrangements are not necessary, but applying the principles of good governance is still important for sustainable success” (British Standards Institution 2013, p.2)

The notion of good governance as expressed by BSI would appear to reflect a growing ideology that seeks to maximise shareholder value *and* promote stakeholder engagement which according to Ponomareva and Ahlberg (2016) has increased attention in, and subsequent adoption of, what might be called effective and appropriate corporate governance. Drawing on Institutional Theory, this paradigm shift, Pieper (2003) claims, has led to the growth of a dominant institutional logic that exhorts small companies, and especially family businesses, to adopt a corporate governance codes and its associated processes and practices.

The literature therefore would appear to conclude that corporate governance codes of an meaningful, appropriate and relevant nature can contribute to the performance and resilience of small companies and that an overarching “one size fits all” is not a practicable approach to guide and enable directors of smaller companies to conduct effective governance (Sullivan-Taylor and Branicki 2011)

Whilst the earlier sections of this paper take a theoretical and conceptual perspective, the narrative moves away from “knowing about” to “knowing how” and offers a practical model of decision making in boards of small companies, using the work of The International Finance Corporation, (IFC) part of the World Bank. The IFC has, at the heart of its mission, a desire to improve the resilience of the millions of small companies across the globe. In the introduction to its SME Governance Guidebook, Mary Porter Peschka, IFC Director, Environmental, Social and Governance Department states,

> “When asked about corporate governance, owners of small and medium enterprises (SMEs) often are sceptical of its value add. They either believe that the business is too small or that it is too early in its development to benefit from building out corporate governance systems and processes. For those interested small business owners, most corporate governance principles and standards are not fit for their business. Implementing policies and procedures designed for larger companies can represent an overly complex and

resource-intensive effort for the typical resource-strapped SME." SME Governance Guidebook (IFC, 2019 p.v)

Through the four stages of growth from start up to what the IFC refers to as the "Business Expansion" phase the question of governance is a central theme. See Table 3.

Table 3: Determining Factors 1 and 2 supporting SME growth

Defining Factors/ Parameters	Stage 1 START-UP	Stage 2 ACTIVE GROWTH	Stage 3 ORGANIZATIONAL DEVELOPMENT	Stage 4 BUSINESS EXPANSION
Size* **(# of employees)**	**Small (e.g., <50)**	**Small to Medium (e.g., 50–75)**	**Medium (e.g., 76–150)**	**Medium Growing (e.g., 151–250)**
Enterprise Focus	**Developing products, testing the market**	**Sales and growth, increasing variety of products, creating client base**	**Optimizing own structure/processes after growth**	**Further growth, supported by improved internal organization and processes**
Culture and Commitment to Good Governance (Policies, processes, and organizational structure)	▸ Small multitasking team ▸ High degree of informality ▸ Few systems, established "on the go"	▸ Team is growing—distinct functions and organizational structure start emerging ▸ Simple systems to enable functions to collaborate	▸ Increased professionalization of functions ▸ Formalizing organizational structure, policies, and procedures	▸ Continuation of trends started in Stage 3
Decision Making and Strategic Oversight (Decision-making process and bodies, leadership style.)	▸ Highly centralized decision making by the founder(s) ▸ Autocratic leadership style	▸ Emergence of delegation to management ▸ Consultative leadership style—largely autocratic but with input from key managers and advisers	▸ Professional managers are hired ▸ Decentralization of authority through division/ functional management ▸ Collaborative management style	▸ Separation of strategic and operational decision making ▸ Institutional decision-making style, based on defined org. structure, roles, and procedures

Source: SME Governance Guidebook (IFC, 2019 p.21)

The processual model suggests that from early days, governance is centralised and the owner-manager is firmly embedded in an autocratic and dictatorial mode where it's "my way or the highway". This, the IFC suggests, is the principal *modus operandi* until the company moves beyond the UK definition of a "Small Company" to the lower limit of the "Medium Sized Company". It is at this stage that compliance and regulation tend to move up the task hierarchy. Whilst the table suggests that there is a discrete dividing line, this process of moving from an autocratic to a distributed governance structure is gradual as the founder recognises that he or she cannot simultaneously play the roles of Goalkeeper, Centre Half, Striker and Referee!

As the company grows, governance therefore becomes less centralised, more collaborative and more widely distributed, but nevertheless there is little doubt amongst managers and directors where the basis of power resides.

At the time of writing, we are entering a new phase of what we may consider to be normal as the Corona Virus has disproportionally affected the very existence of small businesses over a period of longer than a year, the result of which is that many have vanished never to re-emerge. Whatever the new normal, SMEs will rise from the ashes and continue to be a forceful sector in the UK and elsewhere and the decisions that boards make will be instrumental in creating a more resilient sector. That sector will not be the model we have been party to for much of history as the technology will, for many, make "going to work" a thing of the past. Governance will be tempered by considerations of sustainability, an added focus on ethical and environmental issues that will appear on a triple bottom line as the co-partners and adjutants of finance. Just as the term servant leader has emerged, so too will the notion of the servant board and a wider form of distributed leadership will emerge with the board being no longer a "controlling mind" but a force for creativity, innovation and wider participation.

However, unless Maslow's triangle of needs is inverted, it is unlikely that without a much "lighter touch" concerning regulation and compliance regimes, owner-managers will continue to divert their attention from such matters in favour of sales and production. A "one size fits all approach" I suspect, is doomed to failure and just as corporate governance needs to be "Meaningful, Appropriate and Relevant" so too regulation must be adaptable and context driven. What may be reasonable for *Rolls Royce plc* is patently unreasonable for such as *A and M Heating of Sturminster Newton*, (a small "one man band" company that has replaced my central heating boiler recently), and hence the burden of compliance must be contingent, succinct and concise rather than complex, vertiginous and absolute.

Shakespeare offers, as he often does, insightful and apposite words,

"Therefore, since brevity is the soul of wit, and tediousness the limbs and outward flourishes, I will be brief."

Regulators take note!

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Dr Leslie Spiers is the owner-manager of Boardroom Dynamics, an international director and board development company that also undertakes director evaluation and strategic consulting. He is **Non-Executive Chairman** of the Board of. Serpecon Ltd. and advises the board of Field International Ltd. He has completed term assignments as chairman of the board in companies in the agricultural, construction, recruitment, media, medical, leisure, technology and automotive sectors and has chaired over 500 board meetings. He is a specialist in **governance** in the SME, **strategy development and implementation** and works with many companies to develop **the performance of directors and boards.** In 2013, Leslie was elected as a Fellow of the Institute of Directors.

His career has spanned both public and private sectors and has involved him working in organisations ranging from small companies to multi-national conglomerates. He was **Director of Consultancy with Mecca Leisure Ltd** at the time of the management buy out from Grand Metropolitan and the subsequent flotation on the Stock Exchange. He was **Development Director whilst with The Rank Organisation** and following his purchase of Rank's property company he became **Managing Director of Garsington Estates**, an award-winning residential property development company.

Prior to working in the private sector, Leslie was a **Leisure Centre Manager** and a Principal Officer in Local Government Leisure Services responsible for Leisure Centres, Bars and Catering, Swimming Pools, Museums, Outdoor Recreation and Tourism. He is a **qualified PE Teacher** and is a **Visiting Lecturer** at the business schools in **Portsmouth University, Bournemouth University, University of Kent, Coventry University, Guernsey University Centre, de Montfort University and Poznan University in Poland.** He is lead lecturer on Leadership and Strategy for the **Education Company of Australia** on-line MBA in conjunction with Charles Sturt University, Australia and London Metropolitan University

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In 1997 Leslie backpacked solo around the world for a year to gather material for a book. More recently he has travelled across Asia on the Trans –Siberian Express from Moscow to Beijing, spent time living with Maasai nomads in Kenya, Mongolian Herdsmen in The Gobi, Inuit in Northern Greenland, First Nation tribes in The Yukon and Alaska and undertook a solo charity walk the length of England from the Solent to the Solway. In 2006 he completed a charity run of some 270 miles in 13 days running solo from the northern tip of Scotland south to Edinburgh and in 2009 helped to establish a school and a clinic in rural Rwanda as part of a programme to help women recover from post genocide trauma. In 2010 he walked from west to east across England following the trail of Hadrian's Wall and in 2011 ran, again solo and carrying all his own kit, the length of the Great Glen over the mountains from Culloden to Fort William raising funds for the Motor Neurone Disease Association.

He studied **Divinity and PE at The University of Newcastle upon Tyne**; has an **MBA from Southampton Business School;** an **MA in Art & Ideology** from **The University of Southampton**, in which he specialised in Propaganda; **a Diploma in Management Studies from The School of Management Studies at Portsmouth University** and a **Cert HE in IT in Organisations** also from **Southampton University**. He was awarded a **PhD** following his thesis entitled **"Corporate Governance and its contribution to risk and crisis management planning in small companies" from Bournemouth University Faculty of Management** where he also lectures on the **MBA programme**, the **MSc Enterprise Risk Management course** and **In-Company** programmes covering strategy. He regularly contributes to the ACCA research agenda and is quoted in their recent report on strategic leadership. Leslie has been the secretary of the British Academy of Management's Corporate Governance Special Interest Group and was a reviewer of the **World Bank IFC publication "The SME Governance Handbook"**.

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