

# Establishing proper governance practices

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For any private company preparing to go public, often the biggest challenge they face is understanding the entire time commitment involved in establishing proper governance. In fact, most private companies going through the IPO process vastly underestimate the demands, both in terms of time and human resources.

This is especially true in cases where companies are experiencing high growth. As leaders become engrossed in managing day-to-day operations, they can quickly fall behind in establishing the internal governance processes needed to support the organization to the extent they should before, during and after the IPO filing.

## **The first order: Establishing a Board**

The first critical task is assessing the strength and capabilities of your board or the establishment of a board of directors. While a private company may have a board in place, more often than not it is made up of internal or non-independent members. However, becoming public requires that a majority of board members must be from outside the company.

A number of factors must be considered carefully when going through the process. First, it can take a considerable amount of time to find candidates with the appropriate skill sets and experience, so it is essential to put the selection process in motion as quickly as possible. The earlier you can have members in place, the sooner you can take advantage of their support and guidance as you go through the preparation stages.

Second, the battle for experienced, competent board members is a very heated one. Despite the intense competition for star candidates, however, bear in mind that selection for fit is absolutely key. When considering a board's makeup, you should ask yourself:

- Does the person understand your industry and/or markets?
- Do they have previous experience in taking companies public?
- Where relevant, do they have public company experience in the U.S. and Canada?

Third, because the search for candidates starts prior to filing, inquiries must be handled discreetly to avoid the risk of early disclosure of your intentions.

Once you have a board structure in place, it is equally important to establish appropriate committees and clearly define their terms of reference, as well as a standing agenda and meeting schedule.

### **Enabling the culture shift**

A second challenge that private companies must face in going public is a significant increase in terms of the policies, structures and controls required for success in both the pre- and post-IPO phases. This can translate into a substantial culture shift.

Many private companies are used to having an open culture in which information is readily shared. Further, this dynamic culture is often regarded as a critical success factor in contributing to the company's growth. A public company, however, must abide by very specific continuous disclosure requirements. It is important to put in place parameters to help ensure information is properly controlled and disseminated in a way that respects information disclosure requirements.

### **As you prepare for an IPO, some questions management should ask in this regard include:**

- How do you "right-size" your governance structure?
- What people do you need in place to support the path you are taking? Do you have the right combination of executive knowledge for a public company, or do you need to augment the team?
- What services will require external support?
- Do you have formality and rigour around your governance policies and board activities?
- Have you established a code of conduct, whistleblower program or other policies that are essential to a publicly traded company's success?
- Have you clearly established and documented formal delegations of authority?

Establishing a strong governance structure and culture can be instrumental in speeding the filing process, reducing costs, and instilling greater confidence on the part of potential investors as you go through the IPO process and operate as a successful public company.

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