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EMPOWERING BOARDS

Establishing A High Calibre Board Before Going Public

Written by Carissa Duenas on October 23, 2019

It can take years for a company to adequately prepare for an initial public offering (IPO). By considering going public, companies will need to commit to a comprehensive, time-consuming, and often expensive undertaking in order to satisfy listing requirements.

While there are a milieu of factors that lead to a successful IPO, good corporate governance is an area that potential stakeholders and shareholders will scrutinise. It reflects a commitment to transparency, accountability, and provides insight into how the company will be managed on the investor's behalf. It is therefore to the advantage of pre-IPO companies to address, update, and/or upgrade its governance systems early on.

Good corporate governance begins and ends with the Board of Directors. There are several Board-related concerns that will serve pre-IPO companies well if they act sooner rather than later.

Pre-IPO companies can address their Board's composition, committees, and resources, in order to highlight not just a fulfilment of requirements, but a commitment to corporate governance practises – allowing them to eventually position themselves more attractively in the market.

HOW DOES BOARD COMPOSITION FACTOR IN THE PRE-IPO STAGES?

The listing requirements for the size of the Board, composition/ratio of non-executive directors (NEDs) to executive directors (EDs) to independent non-executive directors (INEDs, where applicable) generally vary based on codes or regulations in different jurisdictions as well as the size of the organisation.

In the pre-IPO stages, it is particularly interesting to highlight the role of the NED. NEDs provide appropriate oversight and a highly objective view of the business. NEDs are expected to constructively challenge or, conversely, actively support the Board in decision making, while contributing to its developmental strategy. The earlier they are involved in key governance decisions, the better. They can help ensure that the company is equipped to flourish as a public company.

Recruitment efforts for the NED position should be initiated as soon as possible. The onboarding of NEDs can be a challenge because it takes time. The ideal candidate should have a good mix of skills that include (but are not necessarily confined to) marketing, strategic planning, business development, IPO experience, and financial expertise. They need to have a grasp of the industry and its competitors, the company's operating structure, risks, governance practices, and financial health. They must be a good fit from a strategic standpoint.

NEDs are critical for Boards listed in the HKEX (Hong Kong Exchanges and Clearing Limited) and the LSE (London Stock Exchange Group). For instance, the UK Corporate Governance Code mandates that at least half the Board be composed of INEDs.

All this is to say that If Board composition is addressed pre-IPO, then by the time the company goes public, it will be able to present not only an effective Board but also one that is cohesive.

WHAT BOARD COMMITTEES SHOULD BE CREATED PRIOR TO IPO?

Companies intending to go public with a high calibre Board must make their position clear on transparency and accountability (via an audit committee), compensation (via the remuneration committee), and in the recruitment of Board members (via the nomination committee) early on. These are the three required core committees for Boards of companies listed in the HKEX, LSE, as well as the New York Stock Exchange (NYSE). They advise the Board and effectively execute the Board's corporate governance responsibilities.

The earlier pre-IPO companies establish these committees (at a minimum) prior to listing, the better. Why? Because each committee has a prescribed description of roles and responsibilities detailed through charters. Being guided by these prior to flotation allows governance gaps and deficiencies to be identified and be subsequently addressed sooner, before the IPO. By the time it goes public, the company would have upgraded its governance practices, allowing it to withstand public, media, and investor scrutiny.

WHAT ARE SOME RESOURCES SHOULD BOARDS CONSIDER PRE-IPO?

To ensure the organisation's smooth transition to a publicly-traded company, it might be worthwhile to consider employing the following resources to support the process.

1. LEGAL COUNSEL

Apart from addressing compliance matters with respect to applicable securities laws and regulations, a legal counsel may be able to assist the company in preparing corporate governance documents and policies, as well as committee charters to ensure that all the required duties and responsibilities are documented in the pre-filing period.

2. BOARD TECHNOLOGIES

The use of Board technologies, such as a board portal, provides an efficient, convenient, and secure channel that facilitate the board's operations and for Board members to fulfill their corporate governance obligations.

As a use-case, NEDs are not usually located in one central location (e.g. company headquarters or offices). Since they are geographically dispersed, disseminating Board documents such as board packs, collaborating with fellow directors, and accomplishing committee goals can pose significant productivity and security challenges. An effective, secure, cloud-based board portal will address these issues.

A board portal like Praxonomy also keeps information organised (neatly "partitioning" it through a user-friendly interface), and custom permission settings can be implemented so that only appropriate directors have access to required, sensitive material. Those features are particularly useful for independent committee work.

When effectively implemented, board portals can serve as a governance and compliance solution. It can promote efficiency gains, support good record-keeping, secure board-level confidential information, strengthen accountability and help manage risk.

3. CHIEF FINANCIAL OFFICER

It takes a team with diverse skill sets to plan for an IPO. But internal financial resources are crucial. **The Chief Financial Officer (CFO) is the most integral member of the finance team and the most important company representative during the IPO process.** A company considering going public without a CFO will suffer not only operationally but from a marketing standpoint. Investors look for a CFO whom they can trust to run a publicly listed company. From a corporate governance standpoint, the Board relies on the CFO for direction on the company's financial performance, strategy, and reporting standards so as to be able

CONCLUSION

There are a myriad of ways to ensure a successful transition from a private company to a public one, but establishing a high calibre Board before you file for an IPO is non-negotiable. It is the foundation for good corporate governance.

The value of good corporate governance for pre-IPO companies is that it not only informs potential investors about how the company will be managed and how their interests are represented, but it also allows them to appreciate how the risks they assume with their investments are – or will be – mitigated. In a nutshell, good corporate governance translates to lower risk. And lower risk leads to a higher company valuation. What the company sows in the Board, it reaps.

ABOUT THE AUTHOR

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