Rotman | The David and Sharon Johnston Centre for Corporate Governance Innovation

# Private Company Governance 2020: Research Brief

Private companies are the most significant drivers of the Canadian economy, contributing nearly 67% of Canada's GDP. Yet the ways in which private companies make decisions have largely been hidden from view. In partnership with KPMG, we sought to pull back the curtain on the world of private company governance by conducting a series of studies on what good governance means to them. Our first study, based on conversations with business owners, managers and directors across the country, showed that the governance models adopted by private companies are as diverse as the companies themselves and different governance models were possible in any situation – there were large multi-generational companies with no formal governance structures and small companies with independent boards of directors.

Our latest paper, which was based on a survey of nearly 400 private companies, shows that while private companies vary in their approach to governance and there is no 'one-size-fits-all' governance model that works best in every circumstance, private companies do tend to formalize their governance structures, adopting fiduciary and advisory boards, as they pass through the generations, grow in size and age, and expand in ownership. These findings were consistent with our previous research.

We also found that while private company owners are often resistant to including outsiders in their decision-making processes because they dread a loss of control, they are more likely to formally include at least one outsider on their advisory or fiduciary board as their company grows in complexity.

While so much of what is "good governance" is context-driven, our studies offer insights that can be helpful to companies contemplating the best approach to governance in any context.

## Key Insights:

### Good governance can add material value to decisions

**Is good governance just more bureaucracy or can it add material value to decisions? Though the word governance evokes dreaded ideas of bureaucracy and a loss of control, governance most simply put is the way companies make decisions. The long-term sustainability and performance of any company fundamentally depends on well-informed and reasoned decisions.**

### Companies can benefit from formalized governance

**Private company owners and managers often struggle to understand and articulate whether and why they should introduce formality to their decision-making processes by implementing a governance structure such as a fiduciary or advisory board. Our researchshows that companies at various stages of growth and development can benefit from formalizing their decision-making processes (i.e. making them more fixed, regular and rigorous) in a way that is best suited to their needs.**

### All decisions can benefit from the injection of an outside perspective

**Every company functions on decisions regardless of its age, size or complexity of ownership structure. Since individuals are inherently prone to making irrational decisions, it is never too early to inject an outside perspective into the decision-making process. Experts and non-experts can provide a valuable external perspective to decision makers, cast a new light on issues, challenge and ask penetrating questions that can critically mitigate against the risks of individuals making decisions in isolation.**

### A board can provide an independent perspective

**Advisory and fiduciary boards can provide independent perspectives on strategic and operational matters, which are absolutely critical for ensuring that the best decisions are made in the long-term interest of the company. However, they also come with associated costs, they can be time consuming and costly, and fiduciary boards in particular can be difficult to implement. While each company must weigh the costs and benefits of introducing boards, it is essential to find a systematic way of ensuring that all decisions benefit from the perspectives that outsiders bring to the table.**