

CORPORATE GOVERNANCE RESEARCH ON SMALL AND MID CAP COMPANIES IN THE QUOTED SECTOR

EXECUTIVE SUMMARY

“Corporate governance codes and the regulation of small and mid caps should be driven by a vision of a thriving and competitive small and mid cap sector of the economy. This vision should determine the objectives for code and regulatory developments. Codes and regulations are not an end in themselves but a means to an end.”

Professor John Mellor, author of the report

This research has been carried out on a sample of small and mid cap quoted companies and investigates their relationship with institutional investors in the UK. It is supplemented by preliminary work in France and Germany.

1. The research has highlighted the following:

In the UK

- a) Whilst there is significant ‘buy in’ to the Combined Code by small and mid caps, their concern is that the way it is applied is something of a burden to be carried, discouraging entrepreneurship and growth.
- b) The dialogue between institutional shareholders and the boards of small and mid caps needs to be improved so as to underpin the ‘comply or explain’ regime.
- c) Application of the Code is not sufficiently tailored to meet the varying circumstances of small and mid caps.
- d) The relationship between corporate governance and access to and cost of capital, whilst unclear, is not dismissed, particularly for growth small caps and mid caps.

In France

- e) An increased focus on corporate governance in the small and mid cap sector is emerging.

2. Key issues for the future arising from this research:

- a) The application of governance codes needs to be more discriminating so as to respond to the circumstances of small and mid caps, focusing on support for innovation, growth and competitiveness.
- b) The codes and their application should facilitate investment in small and mid caps in the EU by increasing cross-border flows through integration of the European capital markets.
- c) The application of governance codes should be balanced by a regulatory framework fitted to the circumstances of small and mid caps.
- d) Improved dialogue between institutional shareholders and boards of small and mid caps is required.
- e) The place for a single corporate governance committee of the board, responsible for a company's governance.

3. Conclusions and ongoing research in the small and mid cap quoted sector

In order to address the issues of dialogue and flexibility in the use of the Code in the UK, some criteria and practical steps are indicated. The following fundamental questions arise and are the subject of ongoing research:

- a) To what extent do company ownership structures and stage of development influence governance structures and practice, and therefore the application of codes, and what should this mean for investors?
- a) What are proper and workable bases and guidelines for constructive dialogue between company boards and investors?
- b) What can be learnt from a comparison of the application of corporate governance and the Codes of the UK, France and Germany in their respective countries, taking into account different company ownership structures, in order to identify the implications for policy making at EU level and assist the development of national codes?
- c) What relationship exists between corporate governance and cost and access to capital?