

# **Fact, Fallacy and Failure in Small Business Governance**

**Geoff Fader**

Chair of the Tasmanian Small Business Council and COSBOA board member

## **Significance**

Small businesses comprise almost all of the businesses in Australia but less than 30% are incorporated. Collectively small businesses are the largest employers in our country.

## **Fact**

A small business originates from an idea in some one's mind and grows from the development of that idea. Only after it has taken hold, been accepted and started to grow is it any more than the thinking of an individual. Governance therefore is entirely in the mind of the individual. The individual is the business. Governance reflects the personal beliefs and societal relationships of that individual.

## **Fallacy**

It is a fallacy to believe that most or even many small businesses have any systematic approach to governance. Governance is most often thought of as control of the enterprise and the reality is that the person with the cheque book is the Governor.

As enterprises grow so does the need for processes to manage the growth and performance. This is the start of governance practices and most often it will be around managing the finances and payment procedure, employment practice and workplace health and safety. Many other activities will just proceed as usual because that is how they have always been done. A good descriptor would be "management by exception" meaning that when something has gone wrong the process for doing it right will be written down and become part of the governance practice of the organisation.

The need for some external form of accreditation, usually an Australian Standard or the opportunity to tender for a government contract hastens the development process of governance activity.

## **Failure**

Governance failure finally emerges when the business owner decides it is time to sell or retire and is effectively forced to sell the business. The question then arises as to what is there to sell. If all the process, application and control is in the mind of the individual ie "the individual is the business" then there is nothing to sell. The progressive development of governance practices which guide and control the business ensures that it has longevity and thus with intrinsic value becomes a saleable asset. It has become a business outside of the individual.

Failure to achieve this is clearly a failure in small business governance. Sadly, this is the norm.