

The Blue Sage Group Guidance for Private Companies

Why should a private company adopt public company governance practices? Why should a private company worry about compliance with the Sarbanes-Oxley Act?

Private companies are not immune to the problems plaguing public companies. Investors, employees and customers of private companies are not more forgiving of financial blunders or outright fraud. Missed forecasts and restated financial statements can adversely affect the company's ability to raise capital, attract and retain customers and employees and actually lead to increased operating expenses.

Top-to-bottom ethics and a solid organization governed by sound policies, procedures and controls will lead to a more profitable and respected company.

There are a number of benefits derived from adopting public company governance practices. Among the key benefits are operational excellence and increased financial security. Proper governance provides the ability to collect operational data in a manner that allows the company to control their future rather than document their past.

Other direct benefits include:

- Faster growth
- Predictable return on capital
- Lower employee and customer churn
- Better financial performance
- Faster order-to-cash cycles

Indirect benefits include the ability to control fees such as D&O insurance rates, accounting and legal fees.

When should private companies consider adopting public company governance practices?

Private companies should consider adopting public company governance practices when

- They are anticipating a liquidity event such as a *merger, acquisition or divestiture, or stock offering*. Benefits of this include:
 - Increased attractiveness to buyers and IPO market
 - Higher valuation
 - Accelerated transaction time
 - Ability to control and/or reduce accounting and attorney fees

- Better D&O insurance rates
- When they have not had an *independent assessment* of their business model and corporate governance in more than 12 months and are looking to improve business processes and controls. Benefits include:
 - Improved alignment between management and organization
 - Improved insights into business
 - Ability to improve operational effectiveness and efficiency
 - Ability to improve corporate credibility with customers, employees and investors
 - Improved ability to scale the business

Moving Forward

A CFO of a web-based billing company has implemented public company practices and concurs that the benefits can be substantial. She explains that companies that start out with a solid set of controls and processes will be better prepared for explosive growth because even the newest employees will be able to follow the pre-defined processes. This framework will also enable companies to grow faster than their disorganized competition.

Ask these questions

To find out if you should consider implementing public company governance practices ask yourself the following questions:

- 1) Has your CEO and CFO or other management team reviewed the effectiveness of its corporate governance? This includes Board effectiveness, independence and its role in financial audits and executive compensation matters. Also, management policies and procedures, financial procedures and controls?
- 2) Do you feel that the review efforts improved your company's operational effectiveness, efficiency and/or quality of financial reporting?
- 3) Do you feel that adopting public company standards will enhance the credibility of your company?
- 4) Does your company have a formalized Risk Management process for determining, documenting, and monitoring the effectiveness of controls and procedures supporting financial reporting and other required disclosures?

Before developing your public governance strategy you should consider:

- Where do you start with compliance?
- How do you determine what is the right level of compliance for your company?
 - Hire subject matter expertise to assist with the evaluation and provide independent guidance
 - Develop a multi-stage plan and execute as needed
 - Educate the Board and executive team on the new requirements
- How will you map and document your critical processes?
- How will you identify and manage business risks on an ongoing basis?
- How will you communicate business performance effectively?

Why hire an outside firm like The Blue Sage Group?

The Blue Sage Group and its resources can be used to:

- Assist CEOs and CFOs who are resource constrained
- Assist Board members who desire improved operational visibility
- Provide governance Subject Matter Expertise
- Provide expert facilitation and business process evaluation skills
- Gain independence and objective insights

The Blue Sage Group Private-to-Public Governance Program

For private companies contemplating a liquidity event, The Blue Sage Group offers:

- Assessment of resources required to meet SEC regulations including Sarbanes-Oxley in addition to those of the appropriate listing agency
 - Governance assessment, gap analysis, project plan and timeline
- Evaluation of transition to public company need, timing and ultimate value
- Education, training and preparation for transitioning from a private to a public entity
- Assistance in positioning for sale in the public markets:
 - Complete end-to-end Program management
 - Inventory of key legal, financial and corporate documentation including contracts, intellectual property, assets and liabilities, procedures and controls
 - Quantifying Customer Value with our Customer Loyalty measurement tools

Sample Programs designed to meet public company standards:

- Board of Directors programs
 - Self assessments, new committee creations, charter creation, training including *“How to cost effectively managing an audit Process”*

- Transforming the financial close to meet public company standards. Includes programs focused on disclosure and *Jump-start Internal Procedure and Control* programs
- Corporate ethics assessment, training and policy creation for entire company or select organizations

- Sarbanes-Oxley/Compliance education and training programs
- SOX Readiness Programs – Phased Approach
 - Assessment and Planning
 - Initial documentation and GAP analysis
 - Complete documentation including evaluation of control design
 - Testing
 - Ongoing monitoring

The Blue Sage Group provides services based on business, financial and legal acumen that combine internal audit, public accounting and front line business experience for a comprehensive evaluation and implementation offering.

You need the TBSG if you want to transform your corporate governance programs into projects that will improve your business performance and increase net income.