

A gap has opened in the way that governance works in practice in AIM companies. Experienced company director Barry Gamble believes that a Nomad-led assurance of continuing compliance with the now widely-accepted QCA governance guidance for AIM companies might be the answer.



AIM governance - mind the gap

The essence of corporate governance is the relationship between the directors of a company and its shareholders. The Board is the agent of the company and should act in the best interests of and be accountable to its principal, the shareholders. Timely and reliable information underpins this communication with shareholders.

As reported in the QCAs Spring 2008 *Voice*, ICAS Research Centre found that Nomads/brokers tend not to actively give corporate governance advice; so recent public censure and imposition of substantial fines on AIM companies and Nomads, focused on over-optimistic or late communication, is significant. This action to improve governance is welcomed, but Nomads may need to go further. David Snell, AIM

leader for PricewaterhouseCoopers, argues that analysis by his firm shows that AIM governance is very patchy. In his opinion, without the introduction of a codified governance framework, such as a cut down Combined Code, there will be little improvement in the application of good governance across AIM as a whole.

The AIM team argues that investors directly impact on governance, but is there a gap in the way the system works in practice?

Applying good governance on AIM has to overcome a number of practical problems. AIM generally lacks well-distributed research and adequate media coverage to inform shareholders and act as a basis for scrutinising management. These problems are

compounded by shares in nominee accounts, such that important company communications often do not reach shareholders at all.

When it comes to management scrutiny there are further problems. AIM investors are often not members of PIRC, ISS or other governance monitoring/proxy firms, so these groups often have no locus for action. As a result, poor governance may well go unchallenged.

Where shareholders really do not like a governance regime, they may decide to sell the stock but this may not be possible since AIM stocks generally lack liquidity. According to analysis by activist fund manager Progressive Value Management, liquidity has reduced further in recent years.

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The ultimate expression of good governance is the generation of realisable shareholder value. As such, the governance surrounding approaches by potential bidders for a company is critical for shareholders. AIM boards have a responsibility to ensure shareholder interests remain paramount.

If a bidder approaches the Board and asks for preliminary due diligence information, a confidentiality letter will usually be required; BUT if management subsequently rejects the approach, the bidder may well be unable to contact shareholders.

In effect management are able to block a bid approach perhaps driven by a false sense of what constitutes good governance. Without well-managed activism there may well be limited scope to go hostile and put public pressure on the Board to engage with the bidder. Investment bank Noble in its publication *The Anatomy of AIM* considers there are too few activist investors on AIM and feels this may well be hindering liquidity events through exits.

AIM has been an international success story but has not been

without its critics. The secret has been to achieve the balance between lighter regulation and the recognition that good governance and transparency underpin share valuations and trading liquidity. The continuing challenge will be to ensure this balance is maintained. Perhaps Nomad-led assurance of continuing compliance with the now widely-accepted QCA governance guidance for AIM companies might help close the gap?

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