

BOOK REVIEW FOR BRITISH ACCOUNTING REVIEW

Corporate Governance in Alternative Investment Market (AIM) Companies

Chris Mallin and Kean Ow-Yong

2008, Institute of Chartered Accountants of Scotland, Edinburgh

x + 119pp., £15.00, ISBN: 978-1-904574-44-6

This research monograph addresses an important yet relatively under-researched area. It does so by means of interviews with a small sample of AIM market participants and their advisors, and analysis of a larger sample of AIM company annual reports. The study provides a timely review of the general response of AIM companies to the Quoted Companies Alliance (QCA) Guidelines for AIM Companies (2005) report, and in particular how such companies have responded to the 'lighter touch' approach proposed when compared to that advocated in the Combined Code.

The first chapter describes the development of AIM as a successor to the more burdensome Unlisted Securities Market. It contains useful statistics on the size and industry scope of AIM and sets out the rationale for the study. The research focuses on the degree of compliance of AIM companies with the Combined Code generally, and more specifically with the QCA guidelines. The approach explores important corporate governance issues and provides the reader with a real-world view of the relationship between the key players in a market less constrained in terms of governance expectations but more constrained in terms of financial resources.

Chapter 2 places the QCA guidelines within the context of wider UK corporate governance guidelines including the Combined Code of Corporate Governance (2006). This frame of reference will help non-specialist readers understand both the rationale and practical thrust of the QCA Guidelines - 'good governance' in a main market context differing from 'good governance' in the context of AIM. The hurdles are demonstrably lower and the risks to investors are greater. The chapter also reviews the salient academic and practitioner literature, and places this study within a more longitudinal context by means of comparison with an earlier study by the authors (Mallin and Ow-Yong, 1998). This allows the reader to track the ways in which AIM-related corporate governance has changed.

The research objectives and methods are clearly explained in the third chapter. The reader is reminded of the importance of 'getting governance right' for AIM companies, otherwise confidence in the wider quoted company market might be undermined. Whilst the governance risks are perhaps somewhat over-played here, this does not detract from the importance of the study. The research objectives which the study seeks to address include an examination of AIM company compliance with QCA guidelines, the identification of compliance problem areas, and the determination of a narrative from key market participants, namely directors, investors and NOMADs (nominated advisors). The research employs two approaches: interviews to discern market participant narratives and simple regression analysis/governance scoring to determine the extent of compliance and the drivers thereof. Small scale interviews will always suffer from some uncertainty

regarding the degree to which the results are capable of generalisation or are merely reliable. However, in this study the scope is as wide as might reasonably be achieved given access constraints and the desire for timeliness in the findings.

Whilst the rather long fourth chapter would benefit from division into a number of themed chapters, it provides an excellent interview-based narrative of the key players in AIM corporate governance: 19 company directors, four institutional investors, and two NOMAD/brokers. The chapter details views concerning pertinent corporate governance issues regarding: the perceived aims and key components of corporate governance, the costs and benefits of implementing governance guidelines, desirable governance policies, traits and actions, and so on. Whilst the detail is fascinating, the most important contribution of these results is arguably the triangulation of perspectives between directors, investors and NOMADs. Here, normative and positive approaches are brought into sharp contrast. An interesting result is the clear message that whilst it represents significant opportunity costs for AIM companies, good governance not only protects but also engages investors. Further, NOMADs do not appear proactive in advising companies on corporate governance, focusing more on their role as brokers where appropriate.

The fifth chapter describes the analysis of 300 AIM company annual reports to investigate the level and quality of disclosure of the QCA guidelines and to examine the significance of relationship between firm-specific and market factors and voluntary corporate governance disclosure scores. Whilst this approach could easily slip into a descriptive exercise, this is prevented by the well conceived and executed computation of disclosure scores for each sample company on the basis of a simple non-weighted metric of 23 disclosure dimensions. This enables disclosure performance to be measured and analysed across the sample, but then also provides the dependent variable for the multiple regression model which follows. The model enables the relationship between disclosure and company characteristics to be tested purposefully. The disclosure score analysis reveals that the basic components of good corporate governance practice are disclosed, that disclosure has increased through time, but that AIM companies have some way to go to meet the expectations of the QCA guidelines. The regression modelling reveals as expected that larger AIM companies with larger boards are likely to engage in better disclosure. Interestingly, younger rather than more established companies tend to disclose more. The presence of institutional investors, the type of NOMAD, and the size of audit firm had little impact.

The final chapter summarises the key results of the study and provides some sensible policy implications. AIM companies have indeed adopted many of the features of the QCA guidelines on corporate governance which should reassure investors. There is some concern regarding the quality of overseas companies admitted to AIM in recent years – a trend which is seen by certain commentators are something of a ‘time-bomb’. In terms of policy implications, the authors call for the role of the NOMAD to be reviewed to make it more effective. They argue that overseas companies and non-trading companies require greater monitoring and scrutiny to protect the interests of investors. One prominent implication of the study is that larger boards are better for corporate governance, subject

to the financial and other resource constraints of AIM companies. Finally, the authors argue for the continued adoption of QCA guidelines by AIM companies.

In sum, this is an well conceived research monograph which should be used to flesh out the bare bones of the QCA guidelines in a real-world context. What companies and NOMADs *should* be doing to protect the interest of investors and others is not always operationalised in this more speculative and resource-constrained environment. The authors both emphasise and explain compliance departures in a structured and accessible fashion which renders this monograph an essential read for academics and practitioners interested in the Alternative Investment Market.

Prof. Jon Tucker
Centre for Global Finance
Bristol Business School, University of the West of England, Bristol
Frenchay Campus, Coldharbour Lane, Bristol BS16 1QY
E-mail address: jon.tucker@uwe.ac.uk

References

- Combined Code (2006) *The Combined Code on Corporate Governance*, Financial Reporting Council, London.
- Quoted Companies Alliance (2005) *Corporate Governance Guidelines for AIM Companies*, London.
- Mallin, C.A, and Ow-Yong, K. (1998) 'Corporate Governance in Small Companies – the Alternative Investment Market', *Corporate Governance: An International Review*, 6(4): 224-232.