

# Striking a winning balance:

## The board composition of AIM-listed companies

*The unique particulars of the AIM market mean that the boards of those companies listed on it have a different set of requirements. Here, AIM experienced Members of the Criticaleye Community, offer their thoughts on the ideal board composition of AIM-listed companies.*

Known for its 'lighter touch' regulation, AIM has been an attractive market for growing organisations, with some looking at it as a stepping-stone to full listing. Many organisations of this size are often just exiting the venture capital phase, frequently with executives that do not have the experience needed for listing on AIM. This is when the involvement of seasoned non-executives is beneficial.

### LISTING ON AIM

Listing a company on AIM is not particularly different than taking a company public on other markets. "There is a compliance function and regulatory framework that comes from running a public company," says Neil Matthews, Partner & Head of Equity Capital Markets at Eversheds.

Although not required to adhere to the UK Corporate Governance Code (formerly the Combined Code) in terms of board composition, Neil suggests that AIM-listed companies comply with the code in the name of governance. Having this framework in place can make it easier to move up to the main list if that becomes an option. It also gives investors the security they may be seeking during times of market fluctuations and uncertainty.

"Any AIM company would be well advised to follow the corporate governance code," says Neil. "Some will become 'super' compliant, but it is advised to at least have the minimum amount. This almost certainly means having a separate CEO and chairman." By following the combined code, organisations are demonstrating they are comfortable with corporate governance and have strong non-executives.



# It is suggested that AIM-listed companies comply with the UK Corporate Governance Code as having this framework in place facilitates moving to the main list

THE NETWORK  
OF LEADERS

CRITICALEYE

## IDEAL CHARACTERISTICS OF AIM BOARD MEMBERS - AS TOLD BY CRITICALEYE'S AIM MEMBERS

- A nose for the market
- In-depth knowledge of the listing rules
- Industry expertise
- An excellent reputation within AIM circles
- Experience of running a remuneration committee (as this is the touchstone between the executives and the NEDs)
- In addition, organisations should be open to bringing in new skills when the strategy requires it

Ian Denley, CEO of System C Healthcare plc did just that. "If you can afford it, I would suggest following the corporate governance code. The ability to separate the governance from executives works really well. It provides a nice balance and a check on executive power," he says.

## COMPOSING THE BOARD

Large or small, an organisation's board must represent a set of skills needed by the organisation, particularly if such skills are lacking in the executive team. There is, however, no formula for the ideal board.

Boards are as unique as the companies themselves, with each organisation requiring specialised knowledge. David Pearson, former Chairman of Vividas Group plc, a one time AIM-listed company, warns that although there will be a desire to recruit skills, the board should not be allowed to become too large. "An AIM-listed company board should be proportionate in size to the company, while ensuring that the non-executive directors exceed the executive directors in number. It is also possible that large shareholders may seek representation on the board. This

needs to be managed very carefully not to compromise the independence and its duty of care to all shareholders."

For many AIM-listed organisations, new board members are introduced at the time of listing. This is particularly common when financial skills and an ability to navigate the market are needed.

"Coming out of the private equity phase, we had to recruit an almost entirely new board, save for the chairman," says Ian. "We specifically required someone with strong financial skills to run the audit committee as well as someone with experience of running remuneration committees – a role we consider of particular importance owing to its high interaction with the executives."

## REQUIRED SKILLS

Having a non-executive on your board that is well known in AIM circles, particularly for his/her past successes, can be extremely helpful.

John Allbrook, former CEO of GoIndustry plc, admits that he knew little about the market when his company reversed onto AIM in 2006. Hiring a former CEO of a market-maker was extremely advantageous as a means of building an institutional following and getting to know the market. Indeed, much of the City targeting was taken out of the hands of the broker and placed into those of this individual.

"He knew the business and to whom we should be speaking," said John. "He worked with the NOMAD and broker which was very helpful. His long-standing relationships with institutions gave us a credibility that we otherwise would not have had."

As organisations make their way through the lifecycle, it may be important to change the skills present on the board. However, a shake-up to any board can be disruptive to the organisation. Ian suggests only bringing in new members if new skills are needed.

"If the strategy is changing, the board should be changed. If the board is functioning properly, it should recognise that new skills should be brought on to accommodate this."

David Baynes, CEO of Fusion IP Plc, supports the need for different skills at different times. "We are made up of 21 smaller, growing companies. Those boards change often because the person who is right for the job at one point may not have the skills needed to bring the company to the next stage of growth."

Once more, this is when experienced non-executives are essential. Ian concludes, "Organisations need experienced non-execs, especially if they are going through the growth and scaling phases. Having people that have 'been there and done it', whether it be making acquisitions, finding funding, or setting strategy, is not only extremely useful, it's essential."

© Criticaleye 2010

## Featuring commentary from:



**Neil Matthews**  
Partner & Head of Equity  
Capital Markets, Eversheds



**Ian Denley**  
CEO, System C Healthcare plc



**David Pearson**  
Associate, Criticaleye



**John Allbrook**  
Executive Chairman, Syscap Ltd.



**David Baynes**  
CEO, Fusion IP plc

Contact the authors through [www.criticaleye.net](http://www.criticaleye.net)