

LCBB6002 International Financial Management (IFM)

Component 1- Report

Name: Angelo Dimo

Student number: 2246213

Lecturer: Patrick Yeboah

Executive summary

Listing on AIM extensively demands for stronger corporate government, addressing agency risks, aligning management with key stakeholders and adapting governance expectations as per global markets for sustainable growth. This report indicates several strategies that need to be implemented by the business owners in order to retain control while leveraging 30% shares after being involved in AIM in the UK. It also analyses the need of proper remuneration structure for Directors and demarcates its initiatives to be listed within Shanghai Stock Exchange with identifying institutional differences and requirements of proper recommendations.

Table of Contents

Introduction	4
Concept and requirement of corporate government and agency theory	4
Significance to public limited liability companies	5
Strategies to retain control of the company owners with gaining 30% of company's shareholdings	6
Process of remuneration of directors and relevant structures to ensure fair compensation for directors	7
Identification of institutional differences to list the company in Shanghai and recommendations for the Board of Directors in terms to get aware	8
Conclusion	10
References	11

Introduction

Transitioning from privately owned business to getting listed on a public exchange (AIM or UK's Alternative Investment Market) brings in benefits like new opportunities for growth, greater regulatory flexibility, simple process to go public and even high returns in successful scenarios (British Business Bank, 2024). Along with benefits, it even introduces new regulatory requirements, new responsibilities and inspection from external investors (PWC, 2019). As the family-owned service firm is prepared to list on UK's AIM, it needs to adapt as per expectations of a publicly listed company. Therefore, this report will shed light on key areas the Board needs to understand and address- corporate governance, retaining control with 30% shareholding, fair director remuneration and some institutional differences if listed in the Netherlands or Shanghai.

Concept and requirement of corporate government and agency theory

Corporate governance

To define, corporate governance simply means a system of practices, rules and processes which helps a company operate successfully. It involves mechanisms through which stakeholders and firms interact (Di Vito and Trottier, 2022). As opined by Kyere and Ausloos (2021), with the help of corporate governance, firms make right decisions with balance of stakeholder's interests. In other words, it mainly sets the framework for how decisions need to be made, how objectives need to be set and achieved along with monitoring of performance. Some key requirements of corporate governance include-

- Form an effective board to efficiently lead long-term sustainable success.
- Ensure division of responsibilities and individual oversight.
- Define and align company strategy, purpose and culture.

- Implement internal controls, risk management and transparency in audits.
- Maintain fair director remuneration.
- Regularly engage with stakeholders and shareholders (Onward Opportunities, 2023).

Agency theory

Agency theory defines dynamics between principals (shareholders) and agents (managers/directors) to highlight not only the significance of aligning interests but also mitigating conflicts (Al-Faryan, 2024). In the case of private companies, overlapping of ownership as well as management is quite less. But once external shareholders get involved as in the case of public companies, suitable strategies need to be implemented to reduce related agency risks (Alabdullah *et al.*, 2022). In other words, agency problems occur when managers act as per their own interest rather than maximising shareholders wealth. Mitigation requirements include-

- Board oversight, where independent boards or directors provide balances and checks on executive decision-making.
- Shareholders need to be provided timely and accurate information.
- Independent auditing.
- Shareholder activism.
- Ethical leadership.
- Performance based compensation (Michael, 2025).

Significance to public limited liability companies

Corporate governance is vital for public limited companies as it fosters accountability, transparency and protection from shareholder interest. In the UK, frameworks such as Corporate Governance Code put emphasis on independent shareholder and board rights (Bruno, 2024). Thus, this helps in well-aligning management with investors interest which is even emphasised by the agency theory. In Shanghai, board independence in government-controlled firms is less, which reduces self-dealing but enhances firms performances (Li *et al.*, 2025). This means

governance primarily focuses on regulatory compliance. Additionally, in the Netherlands, The Dutch Corporate Governance Code highly prioritises stakeholder engagement, by promoting accountability, transparency and balanced considerations of all stakeholders' interests (Loeff and Kemp, 2024). Understanding these differences is vital for companies getting listed in different markets to comply with regulations, maintain control and build investor confidence.

Strategies to retain control of the company owners with gaining 30% of company's shareholdings

According to the case study, the list of the company with AMI may reduce the percentage of owners to 30% while 70% of the external shareholders focus on buying the share. In this scenario, the owners have to implement more strategies in order to have a proper control on company's operational process and these are:

Dual class share structure

The involvement of dual class share structure can be effective in this scenario through which the company offers two or more stocks consisting of one class having more voting power in comparison with the others (Baran *et al.*, 2023). In case of this family business Class A with 1 vote per share needs to be held by the public and on the other hand, Class B with 10 votes per share is occupied by the family owners. Thus, it is highly influential as 30% of the total equity of the family owners focus to retain control in shareholders decisions.

Stakeholder's agreement with strategic investors

This agreement focuses on drawing an outline regarding the terms of partnerships with detailed elaborations of rights and responsibilities that focus to mitigate any form of potential conflict with fostering a collaborative environment (Astrachan *et al.*, 2021). In this case study the family business owner's needs to initiate a pre IPO agreement with large external shareholders that focus to establish a voting bloc with considering family's interest and optimise to implement a definite control of the family owners.

Control on Board composition

A careful consideration within Board members of a family business is highly significant when the business is listed on AIM in the UK that focuses to maintain a control when engaging the business within public markets (King *et al.*, 2022). In this case study, the key executive positions within the family need to be effectively maintained that focus to retain board control, ensure operational strategies and the board of family members oversees the strategies and operational process.

Process of remuneration of directors and relevant structures to ensure fair compensation for directors

In order to ensure fair, transparent and performance based remuneration for directors a structured approach is highly required in order to establish good corporate governance standards with having a major focus to attract more external investors. In this scenario, ***establishment of a remuneration committee*** is highly required that must have a definite purpose to set in dependent and transparent payment of directors with having an alignment with company's performance (Shortland and Perkins, 2023). Majority of the members within this committee needs to be independent and they review the market benchmarks with setting of performance targets. It is highly required to create a ***transparent remuneration policy*** that must be approved by different shareholders and it determines fixed, variable remuneration with long term incentives (Esposito De Falco, 2024). However, this policy needs to provide a rationale for each component within the business operations. On the other hand, it is highly required to ***align remuneration as per shareholder's value*** that may be effective to eliminate any form of conflict between directors and shareholders who are involved and it is required to set clear performance targets of the individuals (van Wyk and Wesson, 2021). The ***review and adjustments mechanisms*** are highly required within this structure incorporating annual reviews, involving external advisors to audit the remuneration practices and allow shareholders to provide vote on remuneration processes (Ginesti *et al.*, 2024).

Identification of institutional differences to list the company in Shanghai and recommendations for the Board of Directors in terms to get aware

In order to establish the family run UK based business within Shanghai Stock Exchange a wide range of institutional differences persists and these are:

<i>Category</i>	<i>UK (AIM)</i>	<i>China (SSE)</i>	<i>Key features that need to be maintained by the company</i>
Regulatory Structure	Principle based regulations with following the rules of FCA and LSE (Ferran, 2023)	High regulation persisted with following the rules of China Securities Regulatory Committee (Yang and Zhao, 2025).	Complexities emerge for regulatory approvals in China.
Language	Follow English language and include IFRS based assessments	Follow Mandarin with Chinese Accounting Standards (CAS)	Company needs to get adapted with this CAS systems.
Ownership and control	Control of family members with flexible shareholdings is accepted (Pascucci <i>et al.</i> , 2022).	State ownership is prevalent within the formation of family businesses too (Li <i>et al.</i> , 2023)).	Retaining control on business operations can be challenging.

Investors	Retail global investors can be involved	Emphasis more to involve Chinese domestic investors	Partnerships and strategic relations need to be fostered with local investors.
Capital flow	Capital mobility is smooth (Castillo and Medina, 2021)	In SSE capital control existed with approval requirements for foreign investors in terms of gaining profits (Peng <i>et al.</i> , 2021).	Profit gaining can be complicated
Legal system	Follow common law	Follow statutory regulations or civil law	The company has to follow several contracts implemented by Chinese statutes.

However, in order to establish the family run business within Shanghai Stock Market (SSE) it is recommended for the Board of Directors to strengthen the Corporate Governance with maintaining transparency and regular reviews. They need to redefine directors' roles and responsibilities by hiring Chinese legal advisors. It is required to develop transparent remuneration policies and involve communication strategies in order to update the investors. On the other hand, the risk assessment framework is significant and the company needs to be prepared for SSE compliances.

Conclusion

This report focuses to conclude a detailed analysis with examining a family run business that has definite focus to list in UK AIM and provides a clear understanding regarding the involvement of corporate governance and agency theories. It also highlights strategies to retain control of business owners with 30% shares and involves a definite structure of remuneration policy. On the other hand, it also highlights institutional differences for listing the company with Shanghai Stock Exchange and elaborates several recommendations for the Board of Directors in terms to get easily adapted with the new scenarios within the Chinese Market.

References

- Alabdullah, T.T.Y., Ahmed, E.R. and Kanaan-Jebna, A., (2022). Corporate governance system and firm financial performance. *Acta Scientific COMPUTER SCIENCES Volume*, 4(6).
- Al-Faryan, M.A.S., (2024). Agency theory, corporate governance and corruption: an integrative literature review approach. *Cogent social sciences*, 10(1), p.2337893.
- Astrachan, C.B., Astrachan, J.H., Kotlar, J. and Michiels, A., (2021). Addressing the theory-practice divide in family business research: The case of shareholder agreements. *Journal of Family Business Strategy*, 12(1), p.100395.
- Baran, L., Forst, A. and Tony Via, M., (2023). Dual-class share structure and innovation. *Journal of Financial Research*, 46(1), pp.169-202.
- British Business Bank (2024). *What is the Alternative Investment Market (AIM)?* [online] British Business Bank. Available at: <https://www.british-business-bank.co.uk/business-guidance/guidance-articles/finance/what-is-the-aim> [Accessed 19 Jun. 2025].
- Bruno, S., (2024). Public Companies: UK Law. In *Foundations of Business and Company Law: US, UK, Italy and the European Context* (pp. 91-120). Cham: Springer Nature Switzerland.
- Castillo, P. and Medina, J.P., (2021). *Foreign exchange intervention, capital flows, and liability dollarization* (No. (2021)-006).
- Di Vito, J. and Trottier, K., (2022). A literature review on corporate governance mechanisms: Past, present, and future. *Accounting Perspectives*, 21(2), pp.207-235.
- Esposito De Falco, S., (2024). Remuneration. In *Corporate Governance: Theories, Actors, and Control Systems in the Age of New Capitalism* (pp. 337-376). Cham: Springer Nature Switzerland.
- Favour, M. (2025). *Agency Theory and Its Role in Corporate Governance*. [online] LinkedIn.com. Available at: <https://www.linkedin.com/pulse/agency-theory-its-role-corporate-governance-michael-favour-acarb-doqkf> [Accessed 19 Jun. 2025].

Ferran, E., (2023). International competitiveness and financial regulators' mandates: coming around again in the UK. *Journal of Financial Regulation*, 9(1), pp.30-54.

Ginesti, G., Santonastaso, R. and Macchioni, R., (2024). Family involvement in ownership and governance and internal auditing quality. *Corporate Governance: The International Journal of Business in Society*, 24(8), pp.46-64.

King, D.R., Meglio, O., Gomez-Mejia, L., Bauer, F. and De Massis, A., (2022). Family business restructuring: A review and research agenda. *Journal of Management Studies*, 59(1), pp.197-235.

Kyere, M. and Ausloos, M., (2021). Corporate governance and firms financial performance in the United Kingdom. *International Journal of Finance & Economics*, 26(2), pp.1871-1885.

Li, H., Zhou, C., Ling, Y., Du, S. and Tian, G.L., (2025). Board independence and corporate governance: Mediating role of financial asset allocation. *Finance Research Letters*, 72, p.106502.

Li, K., Xiang, Y., Zhou, C. and Lin, R., (2023). Promote or inhibit: State-owned equity participation and family firms' innovation investment. *Journal of Innovation & Knowledge*, 8(2), p.100354.

Loeff, L. and Kemp, B. (2024). *The Legal 500 Country Comparative Guides The Netherlands CORPORATE GOVERNANCE Contributor Loyens & Loeff*. [online] Available at: <https://www.loyensloeff.com/the-legal-500-corporate-governance-country-comparative-guide-2024.pdf> [Accessed 19 Jun. 2025].

Onward Opportunities (2023). *Corporate Governance*. [online] Available at: <https://onwardopportunities.co.uk/wp-content/uploads/2023/03/OOL-Corporate-Governance-Statement-Website-Version-FINAL-150323-OO-Branded.pdf> [Accessed 19 Jun. 2025].

Pascucci, F., Domenichelli, O., Peruffo, E. and Gregori, G.L., (2022). Family ownership and the export performance of SMEs: the moderating role of financial constraints and flexibility. *Journal of Small Business and Enterprise Development*, 29(4), pp.602-626.

Peng, L., Zhang, L. and Chen, W., (2021). Capital market liberalization and investment efficiency: Evidence from China. *Financial Analysts Journal*, 77(4), pp.23-44.

PWC (2019). *A guide to floating on AIM: Listing in London*. [online] Available at: <https://www.pwc.co.uk/risk/assets/pdf/guide-floating-aim-listing-london.pdf> [Accessed 19 Jun. 2025].

Shortland, S. and Perkins, S.J., (2023). Resourcing remuneration committees: in the dark or on the dark side of professionalisation?. *Employee Relations: The International Journal*, 45(2), pp.402-420.

van Wyk, L.M. and Wesson, N., (2021). Alignment of executive long-term remuneration and company key performance indicators: An exploratory study. *Journal of Economic and Financial Sciences*, 14(1), p.17.

Yang, S. and Zhao, J., (2025). Disclosure quality ratings by the stock exchanges: evidence from China. *China Accounting and Finance Review*.