THE CHALLENGES OF LISTING AT THE NAIROBI SECURITIES EXCHANGE BY TOP 100 MID SIZED COMPANIES' IN KENYA

SIEKEI ASIAGO TONNY

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DECLARATION

This research project is my original work and has not been presented to any other institution or university.

Signed______________________ Date ________________

SIEKEI ASIAGO TONNY

D61/10219/2018

This research project has been submitted for examination with my approval as the university supervisor.

Sign______________________ Date _______________

DR. JOSHUA WANJARE

Senior Lecturer

Department of Finance and Accounting, School of Business

University of Nairobi

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DEDICATION

I would like to dedicate this Project to my beloved Parents Mr. & Mrs. Siekei, my siblings Patricia, George, Rachael, Lillian, Alex, my wife Damaris John and above all my lovely son Jayden Amani Siekei for their financial and moral support during the entire period of the project.

ABSTRACT

The objective of this study was to establish the challenges of the top 100 midsized companies listing at the N.S.E despite meeting the threshold listing requirements. Listing in the N.S.E is a strategic episode in a company's life cycle as it enables a listed company access capital at low costs and enhances its global profile. The NSE avails firms an opportunity to access long-haul investable funds by floating company shares and debt securities to the public. The study carried out a census of all the top 100 midsized companies in Kenya. Primary data was collected using self administered questionnaires. The data collected was polished for accuracy, uniformity, completeness and ensure its consistency with the study objectives. The data was analyzed using descriptive statistics with the help of Statistical Package for Social Science (SPSS). The study deliberated on market based and company specific challenges that hindered companies from listing. Under market based challenges, the high cost associated with listing was found to be the most influential challenge. The respondents were of the opinion that the direct initial costs of listings and the indirect costs of ensuring on-going compliance were too high. Stock market volatility also emerged as one of the relatively influential factors as it was highly considered by the respondents. With reference to company specific challenges, the most influential factor was the company structure. Majority of the midsized companies were family owned with concentrated ownership structures whose owners were not ready to relinquish control of their businesses as would be the case with going public. The study further revealed that company age and company size were the least influential factors considered by the respondents in making listing decision. Access to a wide capital emerged as the most motivating listing benefit. This implies that companies would highly consider sourcing funds from the capital markets when in need to finance their business operations. Despite the numerous listing benefits, the study concluded that CMA should lower initial and on-going listing costs and for NSE to broaden the scope of its products.

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ABBREVIATION AND ACCRONYMS

ACCA	Association of Chartered Certified Accountants
AIMS	Alternative Investment Market Segment
ASEA	Association of Security Exchanges of Africa
CMA	Capital Market Authority
CMMP	Capital Markets Master Plan
FISMS	Financial Income Securities Market Segment
GEMS	Growth Enterprise Market Segment
IPO	Initial Public Offer
KPMG	Klynveld Peat Marwick Goerdeler
LSE	London Stock Exchange
MIMS	Main Investments Markets Segments
MSC	Mid-sized companies
NSE	Nairobi Securities Exchange
NOMADS	Nominated Advisors
SME	Small Medium Enterprises

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CHAPTER ONE: INTRODUCTION

1.1Background of the Study

Security market listing has been cited as a financing strategy of raising long-term equity by floating investors (ACCA, 2013). Security markets are important not only to companies seeking long term sources of finance, but have a widespread effect in the economy as they spur economic growth by boosting domestic savings, attracting foreign investors and improving the magnitude and the quality of investments in an economy (Yartey & Adjasi 2007; Singh, 1997). Listing is the currency that drives a securities market and has a multiplier effect in the overall economic growth. The low listings experienced in many securities markets, especially in Africa, is therefore a matter of great importance. Despite the restructuring of security markets, several challenges persist that inhibit listings, (Eromosele, 2013), many of which have been attributed to the infancy and under-developed state of the markets.

The study was anchored on the agency, pecking-order and trade off sub theories of the capital structure. The agency cost theory argues that floatation costs for the securities market are costly and IPOs are vulnerable to under valuing which has a severe fiscal impact on firms with marginal liquidity levels (Jensen and Meckling 1976). In addition, listing may invite large block shareholders with significant voting rights to stake a claim into the business. The pecking-order theory postulates that entrepreneurs have a preference over internal financing sources over to external sources. This preference reflects the relative transaction costs and risks associated with various forms of financing (Myers and Majluf, 1984). Finally, the trade- off theory stipulates

that entrepreneurs do a cost-benefit analysis on the use of debt and equity financing, preferring to use cheaper sources of finance (Myers, 1984).

Medium-sized companies (MSCs) are the bedrock of economic growth in most global economies. In Kenya, MSCs comprise 98% of all businesses and create 33% of Jobs annually translating to 80% of Kenya's total work force at any given time (Africa Economic Outlook, 2014). Numerous studies have indicated that MSCs face a myriad of challenges that inhibit their growth with financial constraints having received considerable attention (Mwarari, 2103). In cognizant of the role MSCs play, improving their access to finance is a long-standing policy goal in developed and developing countries alike. As financial institutions have curbed their lending to MSCs due to the inherent risks and uncertainties associated with them, policymakers and industry bodies are now increasingly emphasizing on non-bank financing alternatives. Public equity financing is one option that may be suitable for fast-growing MSCs with the capacity to meet the listing requirements (Asea, 2018). Listing in the security markets contribute to expanding financial access for MSCs both directly, by facilitating access to public equity financing, and indirectly, by incentivizing listing firms to improve their financial reporting and corporate governance practices, which may, in turn, make them more appealing to credit-based lenders. (Jasra,2014).

1.1.1 Security Market Listing

Security market Listing can be defined as going public whereby a company owned individually or collectively is admitted to trade in the securities market and the ownership structure changes to be owned by public and institutional investors through

sale of equity securities (ACCA, 2013). Securities Exchange is a platform for the trading of primary and secondary equities and bonds. A security market is a reliable yardstick to measure a country's economic growth in that major changes in an economy are reflected in the fluctuation of share prices. This implies that changes in share prices are indicators on the performance of the economy (NSE, 2018). Security market Listing enhances the performance of security markets which subsequently fuels economic growth in emerging markets (Abiola & Okodua 2008). The financial stock market facilitates higher investments and the allocation of capital, and indirectly the economic growth. Sometimes investors avoid investing directly to the companies because they cannot easily withdraw their money whenever they want. But through the financial stock market, they can buy and sell stocks quickly with more independence. Levine and Zervos (1998) measured stock markets development along with different magnitude and have suggested strong statistically significant relationship between initial stock market development and subsequent economic growth. An efficient stock market contributes to attract more investment by financing productive projects that lead to economic growth, mobilize domestic savings, allocate capital proficiency, reduce risk by diversifying, and facilitate exchange of goods and services (Mishkin 2001; and Caporale et al, 2004).It enables a company to access capital (both debt and equity) at low costs and overcome borrowing constraints. Pagano et al. (1998) explained that the benefits that listed companies may get through an Initial Public Offering include: overcoming borrowing constraints, diversification, liquidity, stock market monitoring, enlarged set of potential investors, increased bargaining power with banks, exploitation of mispricing and finding an optimal way to transfer control. Moreover, there is evidence that an IPO helps initial owners to cash out, even if this reason is not the one that appears in prospectuses (Roell, 1996).

In addition, by going public, a company will be able to objectively determine its market value, improve its corporate governance and benefit from increased public awareness and reputational gains thus increasing market for its securities (Ritter and Welch, 2002). Listing will not only enable the company to raise long term capital to finance its goals, but also benefit from tax incentives offered by treasury. It also assists in balance sheet optimization via debt and equity financing and enhances liquidity thus unlocking shareholders value (CMA, 2018).

Security market listing is one of the most strategic episodes in a companies' life cycle as listing has in impact on every aspect of the firms operation (Draho, 2004). The decision to go public is arrived after the company undertakes an internal analysis pertaining to its management competency, resources, current business growth level, strategic goals and future prospects (Demirguc-Kunt and Levine, 1996). Going public implies sacrificing private benefits of control for the advantages of being a publicly traded firm. Therefore, the decision to go public should be made only when the added value of being listed outweighs private benefits of control. A company that seeks to go public would need to persuade investors of its qualities and business prospects, in order to make it a viable investment option to prospective investors thus ensuring the success of the floatation. The Nairobi Securities Exchange (NSE) introduced the GEM segment in 2013, designed to attract and accommodate midsized companies to go public. Its listing requirements are less stringent include: a free float of 15% of each class of equity shares, minimum subscribed share capital of at least Kshs. 10 million, audited accounts for the year before listing and no profitability record required but with positive progressive plans to achieve growth targets while adjusting

their operations (NSE, 2019). The company shall be required to Nominate Advisors (NOMADS) whose primary role is to offer business advisory services to the applicant company. NSE operates on a robust disclosure regime where listed firms must provide frequent, timely and detailed information for investor's consumption. Once listed, they are obligated to voluntarily disclose six months business performance in comparison to the budget for two financial years. (NSE, 2019). Companies desiring to be admitted in the security markets are obligated to conform to a strong corporate governance to enhance investor protection and boost confidence (NSE, 2019).

1.1.2 Security Market Listing Challenges

Security market listing in Africa is still at infancy. Since 1989, the number of security markets has only improved from the then 8 to the current 30, with South Africa, Egypt and Nigeria contributing to over 90% of security market activity in the continent (Asea, 2019). In recent times, a significant number of security exchanges in Africa have introduced specific market segments for MSCs. These segments help MSCs to raise capital by listing their shares for trading (Jasra, 2014). Currently, there are 30 dedicated MSC boards in Africa established in the last decade (Asea, 2018), with 88% of them having listed less than 10 MSCs since their inception. In addition to the infancy challenges, Yartey and Adjasi (2007) posit that majority of African security markets are fragile and yet to become the financial cornerstones of their national economies. Most of them are characterized by their small sizes, liquidity constraints, volatile markets, inferior trading and settlement structures, limited local investor base, macroeconomic uncertainty and scanty information pertaining to listing (Eromosele, 2013) subsequently contributing to the low listings in security markets.

The challenges facing Top 100 MSCs from going public are varied, from the existing literature. The high costs associated with listing, and the marginal liquidity levels of the MSCs that have make them unable meet the initial and continuing obligations costs, are just but a few. For instance, listed companies are required to hire and retain a variety of NOMADS at their own expenses for the entire listing period (Mwarari, 2013). The top 100 MSCs are eligible to list in the Growth enterprise market segment (GEMS). However, the existence of the segment is alien and the few companies that are conversant with the GEM segment do not fully comprehend benefits they will gain by listing. Noted that in developing markets, firms operate in uncertain environments due to the scarcity of information pertaining listing in the security markets unlike in developed markets where information from industry practitioners and researchers is available for firms that consider listing (Yartey and Adjasi, 2007).

Kibithu, (2005) argued that stringent listing requirements and mandatory disclosures have discouraged MSCs from raising long term capital from security markets as they are inadequately equipped to tackle challenges emanating from regulations. NSE requires firms to abide by the mandatory disclosures requirements thus locking out midsized companies (Asea, 2018). Most firms are averse from listing as they feel the mandatory disclosures would reveal their competitive advantage to business competitors. Listing in emerging frontier markets is centralized and characterized by tedious, complex and time-consuming processes (Duddridge, 2014), as applicant companies are subjected to multiple mandatory regulators in that it’s inevitable to experience regulatory technicalities, uncertainties and high costs of compliance (Asea, 2018). Companies seeking to list in the bourse must be approved separately with both

CMA and NSE with each regulatory agency having its own unique pre-listing requirements, membership subscription and participation which have a high degree of similarity and multiplicity, consequently creating confusion on the present and potential participants thereby contributing to the minimal listings.

The fear of hostile boardroom takeovers by large block shareholders has discouraged a significant number of the top 100 midsized companies from listing, is also an issue, with entrepreneurs unlikely to cede ownership of their firms. Listing enables a company to offload some of its shares to the public thus altering its ownership structure (Ritter and Welch 2002). Shareholders consistently monitor and pressurize the management to increase share earnings in contrast with founder owners, who adopt a relaxed approach. Thus, many MSCs avoid listing because of pressures emanating from common stock shareholders and investors. MSCs cannot borrow considerable funds as investors, banks & other financial institutions consider them as high risk borrowers due to insignificant collateral, limited liquidity, low return on equity, minimal capitalization, susceptibility to market fluctuations and high transience (Jasra, 2014). Supervision by regulatory agencies are inadequate due to the insufficient manpower to enforce regulatory systems (Kibuthu, 2005). This implies that some listed companies take advantage of this policing loophole and contravene corporate governance regulations like insider trading eventually eroding investor confidence. Finally, the capital structure preference that firm chooses may present listing challenges. These are the inherent and homogeneous challenges that plague African security markets thereby not only inhibiting their growth but also account for the dismal listings being witnessed (Yartey and Adjasi, 2007).

1.1.3 Top 100 Mid-sized Companies in Kenya

There is no globally accepted definition of a medium-sized company (Miller and Nyauncho, 2014). Numerous typologies have been used, based on registration status, personnel size, annual turnover and asset base as depicted in the Sessional paper No. 2 of 2005. A country's specific economic context, regulatory structures and institutional frameworks are an essential consideration in the definition MSCs. In Kenyan context, the no. of employees and companies annual turn-over acts as reference points in the definition of medium-sized companies (Miller and Nyauncho, 2014). According to the duo, MSCs constitute companies with a work force of between 50-99 workers with annual turnover of at least Kshs. 51 million and a maximum of Kshs. 1 billion.

According to KPMG (2019), companies in the top 100 midsized category are companies that rank ahead of their peers in terms of revenue growth, profit increments, cash generation and liquidity levels A company ranked in the top 100 survey is one that has succeeded in progressively improving its market position in its operating industry and overtime, this growth has translated into both maximum returns for shareholders and a sound financial position. The parameters are subjected to weights taking into account the revenue scopes and growth projections in comparison to previous year's performance.

Cognizant to the fact that the MSCs contribute significantly to Kenya's economic growth, the top 100 companies are identified through an annual survey conducted by KPMG targeting mid-sized companies incorporated in Kenya. The company must have annual turnovers of between Kshs. 50 million to Kshs. 1 billion (KPMG, 2019).

The survey has been anchored in the Kenyan business sector as a benchmarking and capacity building tool assembling diverse entrepreneurs to provide valueless business lessons and inspiration. The top 100 survey seeks to exhibit business acumen and underscore some of the country's most astute entrepreneurs & businesses and subsequently facilitate an environment that nurtures and embeds the culture of entrepreneurship in Kenya (KPMG 2019). From these surveys, hundreds of mid-sized companies have been identified and these are the focus of the present study.

1.2 Research Problem

Going public is often seen as a great way to raise additional capital to facilitate the expansion of companies. It is also associated with improved corporate governance structures. The costs of accessing finance and lack of funds have been stated as the principal reason for the stagnation and premature death of majority of MSCs thus listing is a gateway for mid-sized companies to solve some of their inherent challenges such as of capital inadequacy, corporate governance and knowledge/skill gaps.

MSCs in Kenya have the potential and historic ability of transiting millions of low income earners from survivalist informal sector levels to the standard mainstream economy thus reducing income disparities (Mwarari, 2013). This underscores the importance of this subsector to the Kenyan economy. However, MSCs are significantly constrained by tight liquidity conditions thus they are unable to access sufficient funds for their business operations (Kiboi, 2012). Financial institutions and commercial banks which have been the major financers to MSCs have in most cases shied away due to perceived risks and uncertainties associated with MSCs'. Globally,

efforts have been made to put these challenges under control through encouraging listing. For instance, the recently launched Mauritius Security Exchange which saw 49 mid-sized companies listed in a span of 10 yrs (Asea, 2018). At the NSE, listings have been very slow across all the segments despite several incentives by the government to attract more listings (CMA, 2015). According to Africa Capital Markets report, (2017), the last listing at the NSE was in 2016. The report further argues that the dismal performance of listed companies with majority of the companies trading below their IPO listing price, acts a deterrent to prospective companies intending to list.

Previous scholars have studied the concept of listing and its inherent challenges. They have identified varied market based (external) and company-specific (internal) factors inhibiting listing. Among the external factors delineated in majority of the studies include the stringent legal and regulatory framework, stock market liquidity , volatility, as well as asymmetry of information. The firm specific factors identified included the size of the company (Pagano et. al., 1998), age, profitability and company structure (Kiboi, 2012). Most researchers have found out that the market specific factors have a significantly affect market listing decision of MSCs (Booth, 2007; Kiboi, 2012; Brau and Fawcett, 2006; Brav et al., 2006; Kumar & Mayu, 2007; Johnson & Kotey, 2018). However, Mwarari (2013) argues that the stringent regulatory framework affects the decision of going public, to a lesser extent, compared to other market specific factors. The extent to which the internal factors affect market listing remains unclear. Some scholars have argued that they are of significant influence on the listing decision (Pagano et. al., 1998; Brau and Fawcett,

2006), while others have postulated that internal factors have insignificant influence (Kiboi, 2012).

The introduction of GEMS in Kenya was meant to spur listing at NSE, through minimizing some of the above challenges. However, only 5 companies have listed in GEMS since its inception in 2013 (CMA, 2018). In fact, one of the companies, Atlas development limited, was suspended in 2018 for failure to comply with disclosure requirements and subsequently delisted this year. The SME listings currently are 25% of the target despite the concerted efforts and incentives offered to encourage them to join the GEMS (NSE, 2013). Thus, the success of GEMS seems elusive. Hence the existing empirical literature on market listing remains inconclusive. This necessitates this study, which aims to contribute to the existing body of knowledge in the area of market listing by answering the question: Why are the top 100 midsized companies not listing at the NSE?

1.3 Research Objective

The objective of the study was to establish the challenges of top 100 MSCs in Kenya listing at the NSE.

1.4 Value of the Study

Corporate managers and directors, especially of unlisted companies will find this study valuable. The study will offer managers and directors an opportunity to "soul search" themselves and compare the pros and cons of being listed hence make a more prudent decision. Investment the findings will also offer investment advisers valuable information in the area of market listing, which will enrich their advisory services. This will in turn enable the companies make prudent investment and financial decisions.

The CMA and the NSE, who are the policy makers, will find the study to be of great importance. The findings will form a framework for formulation of policies to facilitate market growth and for market regulatory purposes. They will also have a basis of conducting their investor education campaigns especially those that target potential companies' issuers of securities.

Finally, the findings of the study will be beneficial to researchers and scholars interested in the thematic area of market listing. It will be a source of information on Medium sized companies and assist in building knowledge in the area of study. The academicians will utilize the findings of this as a future reference point in the same field of study.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter covers the theoretical reviews, empirical studies and the research gaps of the study. The theoretical review explains the theories in relation to the study while the empirical review discusses the literature inferred from various research works by other scholars. The chapter ends by summarizing relevant studies reviewed in relation to the study.

2.2 Theoretical Foundation

The major theory underlying this study highlights the capital structure of , thus explaining the challenges of from going public. The theories include: The Agency

cost theory, Pecking-order theory and the Trade-off theories are important pillars in the development of a systematic framework for the challenges of listing at the securities market.

2.2.1 Agency Cost Theory

Originated by Jensen and Michael Jensen (1976), the agency theory centralizes on the costs incurred due to divergence of interests between owners of the company (principals) and the management (agents). The theory has an assumption that both owners and management are driven by self-interests. Agency costs arise due to the inherent conflict of interests between the management of a firm and shareholders.

Majority of medium sized companies are dominated by concentrated ownership structures with shareholders normally directing the operations of the firm thus diminishing the divergence of interest between the management and shareholders (Brealey and Meyers, 2003). This is reflective to the fact that floatation and underwriting costs for the securities market are costly ventures and IPOs are vulnerable to market under valuing which has a severe fiscal impact on medium-sized companies with marginal liquidity levels (Draho, 2004). Listing of medium-sized companies may invite large block shareholders with significant voting rights to stake a claim into the business and increase the likelihood of takeovers. This presents a challenge to companies listing as most entrepreneurs are unlikely to cede ownership of their firms.

The distinctive feature of public listed companies is the division of owners of assets from their control of these assets. The ownership of these assets is vested in the firm's shareholders while the company management controls these assets (Brealey and Meyers, 2003). The management incurs little or no risk on the assets because all losses will be burdened on the shareholders. Agency costs include administrative oversight activities such as review costs, organizational restructuring expenses in a manner that will exclude adverse administrative and opportunity costs occasioned when shareholders impose restrictions. Ross (2018), states that agency theory is an important framework in the design of governance and control mechanisms in firms. He further explains that agency costs are vital though difficult to track and likewise are unavoidable for medium-sized companies seeking to expand their operations by equity listings.

2.2.2 Pecking Order theory

The pecking-order theory further states that business owners prefer to arrange their financial sources in hierarchical manner. Firms will prefer retained earnings (internal sources), debt financing as second option and lastly issue equity (Myers et al, 1984). The preference depicts the associated transaction costs and risks associated with various forms of financing. Information asymmetry prevalence in the market is high and this explains why equity financing is the costliest and riskiest thus deployed as the last resort to generate funds (Goyal, 2003). The pecking order also helps clarify what drives the optimal balance of debt finance and equity issuance. Myers and Majluf (1984) argued that companies prioritized their financing sources in order of the easiest and cheapest to obtain first. This has an effect in that more established companies will retain their earnings as their leverage decreases, while medium-sized companies will

increase their leverage, thereby showing an inverse relationship between profitability and financial leverage.

The theory is applicable to medium-sized companies due to their inherent features and inaccessibility to external financial sources (Goyal, 2003). Managers posses' confidential information concerning the company's performance, business prospects, hazards and future projections than external stakeholders. Consequently, firms are likely to use internal sources to generate funds as compared to equity because there is a greater risk of losing collaterals due to the inherent risks and costs associated with equity financing. Pecking order theory clarifies why unlisted' capital structure is highly dependent on internal sources of finance. Therefore, firms generating high revenue returns are more likely to go public due to its associated higher cost unlike medium sized firms which are not likely to list due to lack of funds (Myers and Majluf, 1984).

2.2.3 Trade off Theory

Trade off theory (Myers, 1984) states that business owners choose Debt and Equity financing ratio to an ideal level as most organizations are financed with a mix debt and equity. The ideal leverage is attained by weighing the gains accrued from interest obligations and costs incurred by debt issuance (Jahanzeb 2014).This implies that firms are supposed to choose capital structure that is objective and which increases the value of the firm by lowering costs of existing market imperfections.

This theory assumes that each financing method bears unique costs and returns, which are related to the firms' revenue generating capabilities and its commercial and

insolvency risks (Awan et al, 2014). Firms with greater tax gains will utilize greater debt to finance their businesses, in such a way that financial distress expenses and gain from tax shield are balanced. The cost of borrowing entails interest payments and bankruptcy related costs (liquidation and financial distress), while gains of debt financing entails tax shield on interest premiums and financial ethics impacted on the management (Oruc at al, 2009).

The theory further stipulates that a company's worth is equivalent to the unlevered firm's value including value of its outcomes, which entail tax shields and anticipated cost brought about by financial distress. The extensive utilization of debt increases probabilities of financial distress, leading to bankruptcy or liquidation (Awan & Amin, 2014). Consequently, this leads to creditors demanding more risk premiums. Firms shouldn't utilize debt beyond acceptable margins as the cost of debt will supersede tax advantages. Excessive utilization of debt may also lead to the underinvestment problem. This implies that many viable projects are likely be relegated since additional debt won't be utilized at the opportune time because of existing debt (Awan & Amin, 2014). Profitable MSCs with significant collaterals that can guarantee debt may achieve a higher target to debt ratio. Thus, through market listing, firms are able to finance their operations through equity. This presents an opportunity for these firms to have optimal debt-equity ratios.

2.3 Empirical Studies

Going public is a strategic decision for a company as this attracts significant attention from various local and international stakeholders and the public at large. Numerous researchers have undertaken various studies in attempt to examine the phenomenon,

clarify its motives and benefits. Pagano, (1998) analyzed the factors of listing in stock markets. The study, which is widely cited and identified as the most reliable study in this topic, analyzed firms in Italy and concluded that the likelihood of a firm listing in the security markets increases with the company's size. This implies that larger firms have a higher probability of listing in comparison to smaller firms. The small and mid-sized companies will therefore have an inherent challenge of size as the market listing inhibitor.

Brau and Fawcett (2006) undertook a survey of the top management of 336 Chief Finance Officers (CFOs) of unite states based firms which had previously (a) had successful IPOs; (b) had launched their IPOs process but later cancelled; or (c) were eligible to launch an IPO but opted not to. The study utilized sample survey and had 18.1% response rate. The findings revealed that ceding ownership of their businesses was the main reason for not going public; and CFOs who launched their IPOs coincided the IPOs to capitalize on prevailing market conditions. This implies that whereas favourable market conditions incentivize eligible firms to list in the stock markets, this may not be the case to those firms who fear losing ownership of their firms to the public.

Brav et al. (2006) in explaining why most firms remain private explained that most firms do not list due to the high costs associated with public listing. This includes initial registration and ongoing compliance costs. Majority of have marginal liquidity at inception stages thus cannot meet these costs until maturity and boom stages of their lifecycle. Booth (2007) alluded to this argument and stated that common IPO under pricing hinders some companies from listing. Additionally, publicly listed

companies are faced with mandatory disclosure requirements in comparison to unlisted companies. Booth (2007) further explained that indirect costs incurred from an IPO includes exposing firms to shareholder law suits and distractions.

Kumar and Mayu (2007) undertook a study to determine the going public decision in emerging markets. Analysis from their study implied that firms in India list in security markets in order to raise long term capital to inject in their businesses, to rebalance the capital structure, improve liquidity of their shares, to strategically position themselves and for branding purposes. However, the analysis also revealed that Indian firms face the following challenges in listing: high prevalence of market information asymmetry, over scrutiny and high initial and continuing costs. Thus, whereas firms may fail to list due to insufficient information about the benefits of listing and inhibiting initial and compliance costs, those with access to this information and eligible for listing, may opt not to list for fear of opening up their companies to public scrutiny.

In Ghana, Johnson & Kotey (2018) did a study on Listing on the Ghana securities Market. The respondents cited poor market infrastructure, and scanty information pertaining to listing and benefits accrued by listing. The researchers recommended that information concerning listing in the securities market be availed to so as to make it a viable listing option. The availability of this information to the public helps shore up investors confidence thus enhancing market investors participation. Aggressive Public sensitization campaigns creates awareness and disseminate market growth.

Locally, several scholars have undertaken studies in the area of factors inhibiting market listing. Chepng'ar, R. K. (2006) did a survey to determine the challenges that accounted for the low listings at the NSE over the last 50 years since its establishment. The researcher sampled 10 listed as well as 10 non-listed companies for the study using purposive sampling. The results identified onerous and numerous listing requirements as the major limitations for companies seeking to list at the NSE. Other limitations were the profitable records, and the timing and preciseness of mandatory disclosures.

Kiboi (2012) investigated factors affecting listings at the NSE by using the cross-sectional survey method. The researcher utilized non listed firms to determine factors that have impeded their listing and what incentives would motivate them to list in the security markets. Based on the questionnaire that was employed, the study limited itself to company and market-specific factors. It was found out that the challenges unique to the company such as size of the firm, age, level of profitability and structure were less significant in deciding on whether or not to go public. However, the market based factors (political environment, market volatility,liquidity and legal & regulatory framework) were established to have major effect on the decision. The issue of political environment, stood out as the main factor. However, this relationship can be inferred based on its context, Kenya had just come out of political instability as a result of the 2007 elections. The respondents cited access to a broader capital base was a motivating factor. This implied that when an organization is need of a major capital injection, they would resort to the capital markets. In lieu of these benefits, the researcher recommended a possibility to reduce listing and continuing

fees and for the bourse to widen its products scope.

Mwarari (2013) discussed factors influencing listing at the NSE. This study revealed that limited information pertaining to NSE listing requirements and high initial and continuing listing costs greatly influenced SME listings at the NSE. However, the study revealed that stringent regulatory frameworks outlined by the CMA were the least influencing factors influencing SME listings at the NSE. The researcher recommended that NSE & CMA should carry out vigorous publicity awareness exercises to sensitize on the benefits of participating in the security markets and subsequently lower listing costs.

Nyakweba, (2014) investigated the correlation between the selected factors and listing at GEMS in NSE. Secondary information was gathered for 5 years among companies that had made decision to list and those that had not decided to list in the segment. Secondary information was obtained for 5 years from firms that were considered in the study. Since the study used the exploratory design, binary regression analysis was utilized to determine the odds of being listed in NSE. The analysis depicted that the probabilities of a firm to be quoted is influenced by return on assets, liquidity, leverage and sales annual growth rate.

2.4 Summary of Literature and Knowledge gaps

From the empirical studies reviewed, several factors inhibiting listing have been emerged and they are broadly categorized into internal challenges (those specific to the company) such as size of the company (Pagano et. Al., 1998), age, profitability and company structure (Kiboi, 2012), and external challenges (the market based

specific challenges that are not within the control of the company). The external factors stringent legal and regulatory framework, stock market liquidity and volatility, as well as asymmetry of information (Booth, 2007; Kiboi, 2012; Brau and Fawcett, 2006; Brav et al., 2006; Kumar & Mayu, 2007; Johnson & Kotey, 2018).

The aforementioned studies have found out that the market based challenge have a major impact market listing decision, such that favorable legal framework, increase in the products to be traded in the stock exchanges, reduced market volatility, and accessibility to pertinent information regarding the capital markets will encourage market listing. However, Mwarari (2013) argues that the stringent regulatory framework affects the decision of going public, to a lesser extent, compared to other market specific factors. Whereas favourable market conditions incentivize eligible firms to list in the stock markets, this may not be the case to those firms who fear losing ownership of their firms to the public (Brau and Fawcett, 2006).

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This section shows the research methodology that was deployed in accomplishing the research objective. It comprises: research design, target population, analysis and collection of data.

3.2 Research Design

This study adopted a descriptive survey as the researcher was interested in developing a profile of the challenges of listing by the Top 100 MSCs at the NSE. The descriptive design method was deemed appropriate as it was used to portray an accurate profile of the persons, phenomena, characteristics and situations in the study (Yin, 2009). The design also ensured that there was minimum bias in data collection. This design was deemed suitable as it addressed the research objectives and questions proposed in the study sufficiently.

3.3 Population

The population was made up of all the Top 100 MSCs in Kenya selected from KPMG top 100 midsized companies 2018 survey. Majority of the top 100 midsized companies' head offices were located in Nairobi County, Kenya while few were situated in Mombasa and Nakuru.

3.4 Data Collection

This research utilized semi-structured questionnaires to collect primary data. Structured questionnaire is a cluster of structured questions with its contents developed to address specific aspects of the study. The questionnaires targeted the owner-managers and employee-managers as the information being sought was

strategic. This instrument of data collection was selected based on the nature data to be collected pertaining to the various challenges of midsized companies listing at the NSE. The questionnaires were administered by the researcher with the help of a few research assistants to the Top 100 midsized premises, for those companies situated within Nairobi County. For those companies domiciled in Mombasa, the questionnaires were mailed to them using the companies' official mails, due to their geographical distance. Follow up was done through telephone calls.

Cautionary exercise was undertaken to ensure most of the questionnaires deployed were received by opening an acknowledgement file of all questionnaires issued. The questionnaires had two distinctive parts of both closed and open-ended questions. A mix of both open-ended and closed questions served to strike a balance between the cost and time that was consumed in analyzing them, and to ensure that any other relevant information that may not have been envisaged in the questionnaire was captured.

3.5 Data Analysis

The data amassed was polished for accuracy and uniformity and ensure its consistency with the study objectives. The data was subsequently analyzed using descriptive statistics with the help of SPSS software. Descriptive statistics (frequencies, percentages, mean and standard deviation) were used to order-rank the challenges facing the Top 100 mid-sized companies. Tables were used to bring forth the data.

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This section presents data analysis, presentation and study findings within the framework of the research question of the study. Primary data was collected from the top 100 mid-sized companies using questionnaires designed on the study objective which sought to establish challenges of top 100 MSCs listing at the NSE.

4.2 Response Rate

The study undertook a census of the top 100 MSCs in Kenya and obtained data from 62 companies resulting into 62% response rate which was sufficient enough as it conformed to punch's (2003) explanation of a satisfactory of response. High response rate ensures that survey findings are representative of the target population. Punch (2003) stipulated that acceptable response rates are variant depending on the administration of the survey. For questionnaires administered via e-mail and face-to-face, a 60% response rate is deemed as an adequate representation (Punch 2003).

Table 4.1 Response Rate

	F	%
Valid Questionnaires	62	62
Invalid Questionnaires	38	38
Total	**100**	**100.00**

Source: Research findings

4.3 Descriptive Statistics

The study utilized descriptive statistics: frequencies, percentages; mean and std. deviation to establish the various profiles of the companies and to order rank the challenges of the top 100 midsized companies listing at the NSE.

4.3.1 Duration of Operation

The study sought to find out the number of years that companies in the study had been operational since establishment.

Table 4.2 No. of years in Operation

Years		F	%	Valid %	Cumulative %
Valid	Below 3	7	11.3	11.3	11.3
	3 -6	13	21.0	21.0	32.3
	6-10	18	29.0	29.0	61.3
	Over 10	24	38.7	38.7	100.0
	Total	**62**	**100.0**	**100.0**	

Source: Research Findings

The findings in Table 4.2 above indicate that a majority (38.7%) of the companies had been in operation for more than 10 yrs, 29% for a period of between 6-10 yrs, 21% for a period between 3-6 years and finally 11.3% for a period not exceeding 3 yrs.

4.3.2 Funding Sources

The researcher sought to find out the finance sources of the companies in the study.

Table 4.3 Major Sources of Funding

		F	%	Valid %	Cumulative %
Valid	Personal Income	22	35.5	35.5	35.5
	Venture Capital	7	10.8	10.8	46.3
	Bank Loans	33	53.7	53.7	100.0
	Total	**62**	**100.0**	**100.0**	

Source: Research Findings

The findings in Table 4.2 above indicate the financial sources included

Bank loans (53.7%), personal finance (35.5%) and venture capital (10.8%). Loans from banks and personal income emerged as the most common finance source, implying that most businesses use loans from financial institutions and personal finance to build and expand their businesses.

4.3.3 Annual Turn over

The study sought to establish the company's annual financial turnover.

Table 4.4 Companies Annual Financial Turnover

		F	%	Valid %	Cumulative %
Valid	50m – 200m	21	33.9	33.9	33.9
	200m – 500m	18	29.0	29.0	62.9
	500m – 800m	15	24.2	24.2	87.1
	800m – 1B	8	12.9	12.9	100.0
	Total	**62**	**100.0**	**100.0**	

Source: Research findings

The findings presented in Table 4.4 depicts that most (33.9%) of the businesses had annual turn over's of between Kshs. 50-200 million, 29% had annual turnovers of between Kshs. 200-500 million, 24.2% stated annual turn over's of between Kshs. 500-800 million while the rest (12.9%) of the businesses indicated annual turn over's of between Kshs. 800 million to Kshs. 1 billion.

4.4 Challenges of top 100 midsized companies listing at the NSE

The respondents in the study were asked to rate several key challenges of listing at the bourse. This information is presented in chart 4.5 below:

Table 4.5 Rating of MSCs Challenges of listing at the NSE

	N.E	L.E	M.E	G.E	V.G.E	Mean	std. deviation
Listing Challenges	%	%	%	%	%		
Company Specific Challenges							
Company Size	16.1	30.6	19.4	12.9	21	2.92	1.39
Company Age	14.5	33.9	22.6	17.7	11.3	2.77	1.23
Level of Profit	0	11.3	19.4	38.7	30.6	3.89	0.97
Company Structure	0	0	12.9	38.7	48.4	4.35	0.70
Market Specific Challenges							
High costs of listing	0	0	21	33.9	45.2	4.24	0.78
Legal & Regulatory frameworks	0	11.3	21	29	38.7	3.95	1.03
Information asymmetry	9.7	19.4	38.7	17.7	14.5	3.08	1.16
Undervaluing of share price during IPO	11.3	16.1	19.4	30.6	22.6	3.37	1.30
Stock market liquidity	17.7	11.3	12.9	31.6	26.5	3.40	1.46
Stock Market volatility	0	8.1	19.4	35.5	37.1	4.02	0.94

Source: Research findings

Table 4.5 shows that company size affected listing of companies to a less extent as shown by 30.6 % of respondents while 16.1% felt that it affected them to very less

extent. The results mean was 2.91 and a 1.39 standard deviation. Company size was considered as a listing challenge to a very large extent by 21% of respondents, 12.9% large extent while 19.4% of the respondents were moderately affected by their company size. From the company profiling, a significant number (29%) of the companies had annual turn over's of Kshs. 200 million upwards meaning that most of the companies in the study were big in size. However, the study findings revealed that company size was not regarded as a key listing challenge by the respondents. 33.9% indicated that company age hindered them from listing to a less extent while 14.5% were affected to a very less extent. It emerged that 11.3% felt that company age hindered their listing to a very large extent, 17.7% to a large extent while 22.6% were moderately affected. The results had a 2.77 mean and 1.23 standard deviation. Majority (38.7%) of the companies had been in existence for more than a decade, however they were not keen on listing thus company age was not considered as a listing challenge. The profitability level of a company was an impediment to companies listing to a large extent as agreed by 38.7% of the study respondents. 30.6% indicated to very large extent, 19.4% were moderately affected and 11.3% to a less extent. The results produced a 3.88 mean and a 0.70 standard deviation. The results indicate that the profitability record of companies required by NSE as a pre requisite to listing affected companies from going public to a large extent.

The fear of losing control of the businesses was a listing challenge to a very large extent as agreed by 48.4%. Majority of businesses were family owned with concentrated ownership structures whose owners were unwilling to dilute the ownership or cede control of their companies. The results produced a 4.35 mean and a 0.71 standard deviation. The study further established that 38.7% of the respondents

were of the opinion that company structure hindered them going public to large extent while 12.9% were affected to a moderate extent. The respondent's main concern was the likelihood of hostile boardroom takeovers as is likely with going public.

High costs associated with listing which entails costs of ensuring on-going compliance with listing regulations and costs of hiring NOMADS have deterred companies from going public to very large extent (45.2%) of respondents. 33.9% were affected to large extent while 21% moderate extent. The outcome produced mean of 4.24 and 0.78 standard deviation. Besides from direct costs incurred before listing, the respondents also cited the opportunity indirect costs of business time used on on-going regulatory compliance and investor streamlining relations. The onerous listing process, legal requirements and regulatory frameworks to be adhered to before listing presented challenges to a very large extent as agreed by 38.7% while 29% felt that they were affected to large extent.21% were moderately affected and 11.3% were affected to a less extent. The results mean was 3.95 and 1.03 standard deviation. The study revealed that there was general information about the capital markets however most of the respondents were not aware of the listing process neither were they aware of the benefits they would accrue by listing. 38.7% of the respondents stated that information asymmetry affected their listing moderatly, 17.7% large extent and 14.5% very large extent. Consequently, 19.4% were affected to a less extent and 9.7% to very less extent. The factor had a 3.08 mean and a 1.06 standard deviation.

Based on the findings of the study, majority of respondents said that once they have listed, their company share prices were likely to be undervalued during IPO leading to severe fiscal impact on their businesses.30.6% of the respondents felt that

undervaluing of share prices during IPO issue hindered them from listing to large extent, 22.6% very large extent, 19.4% moderately while 16.1% less extent.11.3% felt affected to a very less extent. The results had a 3.37 mean and 1.30 standard deviation. The level of liquidity in the capital markets was a considered by companies before listing.31.6% to a large extent, 26.5% very large extent, 12.9% moderately, 11.3% less extent and 17.7% very a less extent with a 3.40 mean and a1.46 standard deviation. Finally, the study tested the stock market volatility in establishing the challenges of the top 100 midsized companies listing. It emerged that most respondents had perceived short market termism translating onto share price volatility.37.1% of the respondents revealed that market volatility affected them from listing to very large extent, 35.5% large extent and 19.4% moderately. 8.1% to a less extent with a mean of 4.01 and a 0.94 standard deviation.

4.5 Analysis of the benefits to Company Listing at the Security Markets

The respondents were asked to rate several key benefits that would influence company listings at the bourse. The results are shown in table 4.6 below

Table 4.6: Analysis of the benefits to Company Listing at the Security Markets

	V.L.E	L.E	M.E	L.E	V.LE	Mean	Std. Deviation
Listing Benefits	**%**	**%**	**%**	**%**	**%**		
Access to wide capital base & capital markets	0	0	11.3	33.9	54.8	4.44	0.69
Access to prestige and	0	0	17.7	43.5	38.7	4.21	0.72

status.							
Diversity in range of investors	6.5	11.3	19.4	29	33.9	3.73	1.23
Improving business relations with potential customers, suppliers and bankers	0	0	0	45.2	54.8	4.54	0.50
Mergers, acquisitions and share price discovery	1.6	16.1	19.4	27.4	35.5	3.79	1.14
Improve corporate governance mechanisms	13.9	17.4	19.7	22.6	26.4	3.22	1.34

The table 4.6 shows that accessibility to broad and wide capital base and admission in the capital markets would influence companies to list to a very large extent as expressed by 54.8% of the respondents.33.9% stated they would be influenced to large extent and 11.3% moderately. The benefits mean was 4.43 and 0.69 standard deviation. The prestige, status and recognition associated with listed companies would influence 43.5% of the respondents to list in the bourse. 38.7% would be influenced to a very large extent and 17.7% would be moderately influenced. The influencing factor had a 4.20 mean and 0.72 standard deviation. Diversity in the range of new shareholders and investors joining companies after listing had a 33.9% influencing factor on the respondents. 29% stated they would be influenced to a large extent, 19.4% moderately, 11.3% less extent and 6.5% to very less extent. The study revealed 3.72 mean with 1.23 std. deviation.

Based on the findings of the study, 54.8% of the respondents would be influenced to list as this would enable them to improve their business relations with potential clients, suppliers and financial institutions while 45.2% expressed that they would be influenced to large extent. This factor had a 4.54 mean with a 0.50 standard deviation. The study established that growth opportunities that include mergers and acquisitions would influence companies to list to large extent. This was agreed by 35.5% of the respondents, 27.4% would be influenced to large extent & 19.4% moderately. 16.1% of the respondents were not so keen mergers to a less extent and only 1.6% would be influenced to list because of this factor. The factor had a 3.79 mean and 1.14 standard deviation. Companies listed in the security markets operate within a highly regulated environment that improves their company corporation governance mechanism. It emerged that 26.4% would be influenced to a very large extent so as to gain from enhanced corporate governance structures. 22.6% stated to a large extent, 19.7% moderately.17.4% less extent & 13.9% very less extent. The factor had a 3.22 mean and 1.34 std. deviation.

4.6 Initiatives by the NSE that would influence Company listings

The study respondents were asked to indicate initiatives by NSE that would influence them to go public. It emerged that majority of study respondents stated that improvements in market efficiency to reduce costs of raising capital, Re-classification of listed securities and dynamic product development would influence them to go public.

4.7 Discussion of Findings

The study revealed that the company structure of the businesses was the most significant hindrance to listing. Majority of the MSCs were family owned and

dominated with concentrated ownership structures whose owners were not ready to cede control of their businesses as is likely with going public. These results were consistent Brau and Fawcett (2006) stated that most companies in Africa have underutilized the security markets because their owners are averse to losing control post listing. The agency cost by Jensen (1976) likewise states that companies which gain from retaining more control of their firms have preference to not go public than gain less when listed.

High costs associated with listing at the NSE was ranked as the second most influential challenge hindering companies from going public. The findings concur with Brav et al (2006) who established that costs of ensuring on-going compliance and the mandatory annual subscription fees have acted as impediments to firms seeking to go public. In the NSE, this is evidenced by the requirement of firms to hire and maintain a variety of NOMADS for the entire duration a firm will be listed thus contributing to the minimal listings. Indirect costs incurred after listing includes the mandatory requirement to continuously train company directors and hire consultants from professional bodies to run the firms once listed.

The study revealed that stock market development has in impact on stock market volatility. The NSE is dominated by a few actively trading blue-chip companies that control over 75% of the NSE total market capitalization; thus should these companies go under then the security market would equally collapse. High volatility in security markets increases costs of access to capital thereby decreasing the use of capital markets as source of finance. This implies that MSCs would shy away from the bourse resulting in the low listings because of the increased costs of access to capital.

Therefore, the findings are in contradiction with Eromosele (2013) and Demirguc at al (1996) conclusions that stock market volatility is not one of the factors considered by companies seeking go public.

The respondents cited the onerous listing requirements and legal frameworks to be complied with prior to admission in the capital markets as being too strict. Listing in the NSE is non-centralized and un-unified further compounding the costs and prolonging the time it takes to be finally licensed to trade in the NSE. Chep'ngar (2006) argued that proper regulatory frameworks create a conducive investment opportunity to enhance inclusivity of companies in the security markets. Thus, an overly stringent securities market would likely bottleneck itself thus inhibiting companies from listing. Kumar and Mayu (2007) were of the opinion that a favorable legal framework attracts entities to stock market. However, the results are divergent with the views of Mwarari (2003) who established that the stringent regulatory frameworks established by the CMA were of the least influencing factors determining company listings at the NSE.

The CMA listing manual (2002) stipulates a company must post profit for at least two years consecutively as a pre requisite to listing. Majority of respondents said they were unable to meet this requirement due to the fluid nature of business which leads to fluctuation on profits. The findings are similar with Nyakweba (2014) who established in her study that the profitability of a company influence going public is high whereby the profitability level of a firm would be correlated positively with listing decision of a company due to the effect of listing requirements.

Market liquidity was established to affect company listings to a moderate extent. Kenya's capital market is dominated by institutional investors (pension funds) and retail investors. However, their participation in the secondary market is limited as majority of them adopt the buy and hold approach consequently limiting the frequency of market activity. A liquid market is defined as one which there are numerous bids & offers and market players can seamlessly enter and exit it at minimal costs of transaction, the absence of which results to high transactional costs as bid offers are likely to be unmatched by offers. According to Kiboi (2012), business entities contemplate sourcing funds from the security markets when in need to raise funds for projects that are capital nature intensive. Stock market liquidity emerged as a reliable indicator of future long-term growth (Levine, 1996). Wachtel (2002); Trabelsi (2002); and Rioja and Valev (2003) have shown empirically that the financial system has a significant role and provides an important contribution to economic growth.

Issuing an IPO is a complicated and expensive venture for medium sized companies majority of which have marginal liquidity levels. Most of the respondents felt that undervaluing of share prices during issuance of IPO may have severe fiscal impact on their businesses due to market demand and supply forces. The respondents also cited the underperformance of MSCs already listed in the NSE, majority of which are trading below their IPO listing price. The study concurs with Booth (2007) argued that companies take into consideration short market termism resulting into share prices volatility and share price undervaluing during IPO as challenges of listing in the security markets.

There was general knowledge about the NSE amongst the respondents. However, the process, procedure and benefits of listing was known to a moderate extent. The study findings concur with Johnson and Kotey (2018) who stated that capital markets should avail more information concerning listing guidelines, procedure and benefits in order to encourage more listings in the security markets.

The study established that company size was not considered as a key challenge on listing decision by the respondents. Most of the companies in the study were big in size owing to their annual turn over's. However, the respondents were of the opinion that the size of the company was not an influencing challenge in listing decision. The findings are inconsistent with Pagano (1998) conclusions that once a company growth reaches a certain stage, it would most likely to go public. Finally, the study revealed that company age was the least considered factor by companies seeking to list. Yartey (2008) stated that the length of duration a company has been in existence has a positive impact on its likelihood to list. However, feedback from the respondents was contradicting with literature. Pagano (1998) stated that a company's life cycle would naturally lead it to float its shares on attaining certain stage of "maturity". From the findings of the study, none of the respondents including seasoned companies were enthusiastic However, none of the respondents especially the on the stock market.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter analyzes the summary of the research, conclusions and recommendations inferred from the findings which are deliberated in regards to the objective of study which sought to establish the challenges of top 100 MSC in Kenya listing at the NSE.

5.2 Summary of the Findings

In the academic study, market based and company specific challenges were extensively deliberated. The market specific challenges discussed were: high costs associated with listing, stock market volatility, legal requirements & regulatory frameworks, stock market liquidity, market volatility, undervaluing of share price during IPO floatation, and information asymmetry. High listing costs emerged to be the most influential and significant factor amongst the market based challenges. Company specific challenges discussed were: company age, company size, level of profit and ownership structure. Results from the study indicated company age and company size emerged as the least influential factors considered by companies before listing. Profitability level of a company was found to be a listing determinant to a moderate extent while the company structure of the businesses emerged as the most influential listing challenge.

The study established that most respondents were unwilling to cede control of their businesses as they want to retain 100% control of the company and enable transition of their business entities to their generation. The results are consistent with Irving (2000) who stated that medium sized companies have shied away from the security

markets due to the risk relinquishing control & dilution of ownership after going public. Based on the study findings, most respondents stated that the high listing costs associated with listing at the security markets have contributed to them not going public. The study further revealed that the mandatory requirements which include hiring NOMADS from professional bodies and training of directors contributed the direct and indirect costs incurred subsequently inhibiting their chances of listing.

The level of volatility in the stock market was highly considered by the respondents. Companies are attracted to the security markets when there is active trading among the already listed companies. This means that active a robust active market attracts company listings as it builds confidence in the capital markets. The stringent listing requirements were cited by a significant number of the respondents as being very unfavourable. The findings were similar to Asea (2003) who alluded that proper regulatory framework enables a conducive environment thus attracting company listings in the security markets. Consequently, an excessively stringent market would place bottlenecks on its listings as it would discourage companies from the security markets. The outcomes are in concurrence with empirical findings as the most influential challenge was the fear of losing ownership of the business, high costs associated with listing, then market volatility and finally legal requirements and regulatory frameworks.

The Level of profitability required by the NSE before listing was a major factor as most companies were not able to maintain the threshold of profit required two years prior to listing. The respondents also cited the risk of undervaluing of share prices during IPO issuance would lead to severe fiscal impact on their finances. In addition,

the minimal information available pertaining to the listing process and benefits they will accrue by listing as a reason for not listing. The size and age of the companies emerged as the least influential factors hindering companies from listing. Majority of the companies in the study had been in operation for over a decade and were big in size; however they were not enthusiastic in listing.

The study established that the most important listing benefits was the accessibility to a wide capital base that enables companies' raise long term funds for capital intensive operations at low costs. Publicly listed companies are able to improve their business relations with clients and financial institutions due to the mandatory disclosures thus potential investors can access sensitive information regarding the company's financial soundness subsequently reducing information asymmetry as opposed to a private company. The prestige, recognition and status associated with a listed company was an influential factor which subsequently improves the likelihood of a listed company emerging an industry benchmark.

The worth of a listed company is determined by its current market share price implying that the company would have to uphold high corporate standards to improve it performance so as to make it attractive during mergers and acquisitions. The least considered benefits were investor diversity and improvement of corporate governance mechanisms. These findings imply that in as much as the range of investors joining the company upon listing would increase, it was not highly desired because of the risk of relinquishing control of the firm. The firm had formulated basic business ethics and would not least likely opt for the security markets as an avenue for improving its corporate governance structures.

In regards to initiatives to be undertaken by the NSE to attract listings, the most common cited initiative was minimizing direct and indirect costs incurred prior and after listing. The respondents also expressed the view that NSE needs to innovate its products on offer. In as much as NSE had demutualized, most of the respondents were not conversant with this phenomenon. Te respondents further indicated that NSE should re-classify listed securities as it makes business analysis superior and objective. The tax incentives commonly offered to companies intending to have not had any positive impact in influencing company listings.

5.3 Conclusion

The study concluded that market specific factors such as the high costs associated with listing, market volatility, legal frameworks and information asymmetry greatly influenced companies going public. Of the company factors, company structure and fear of losing business ownership was the greatest factor that influenced company listings as most entrepreneurs were reluctant to cede control of their businesses by going public.

The study also concluded that the high costs associated with listing contributes to the minimal listings as companies are required to pay an array of direct and indirect costs prior and after listing. The study also concluded that a robust active market attracts company listings as it builds market confidence.

The study concluded that listing requirements were very onerous. In addition, the listing process was itself very complex, time consuming with numerous requirements to full fill. The study also concluded that lack of sufficient information pertaining to

listing process and benefits accrued by listing has contributed to the low listings. The study further concluded that the mandatory disclosure requirement brings about scrutiny and exposure thus inhibited company listings. Finally, under challenges of listing, the study concluded that neither company size nor company age was a key hindrance to companies going public.

The study concluded that the most influential listing benefit was the opportunity to access wide capital base at lower costs. This affirms with existing literature that business entities would highly consider admission to the bourse when in need of investment capital to finance their investment projects. The respondents were not enthusiastic in the benefits of neither increasing the range of diversity of investors nor improving the company's corporate governance mechanisms. These findings imply that the risk of ceding ownership and losing control of the business outweighs these benefits.

The study concluded that the initiatives that could be undertaken to encourage MSCs to list as lowering costs, NSE to become more creative and innovative on its products, giving the companies time to understand and adapt to the stock market. The re-classification of listed securities was also cited by several respondents.

5.4 Recommendations of the Study

The study recommended that the capital markets and government agencies needs to formulate policies that protect founder-owners of enterprises from hostile takeovers after listing as the fear of losing control emerged as the most influential challenge of listing amongst the respondents. The CMA should also need to involve all

stakeholders while drafting listing requirements and regulatory frameworks. This will ensure there is a level playing ground as the rules will be applicable to both midsized companies and blue chip companies.

The study recommends that to encourage company's listings, the securities market needs to lower the direct cost of listing and indirect costs incurred after listing to ensure compliance with regulations. In addition, the study recommends that NSE and CMA should integrate and streamline the listing process to reduce delays. The study further recommends that the security market needs to be creative, innovative and widen the product range of its products so as to avail potential issuers with a variety of options. This will motivate Medium sized enterprises to go public as midsized companies subsector constitute majority of businesses in Kenya.

The study finally recommends that the NSE needs to devolve to the counties level by opening up liaison offices where business entities would obtain all the information pertaining to listing. This would further encourage company to list in the stock exchange.

5.5 Limitations of the Study

The researcher encountered numerous challenges while undertaking the study. First, the research was limited in terms of conceptual scope as it only focused on the listing challenges of the top 100 MSC in Kenya. The academic study was therefore confined to only 100 medium sized companies thus may not apply to other medium sized companies which form the bulk of businesses in Kenya.

The research was curtailed since it only utilized primary data for purposes of analysis. The information sought was strenuous to get from the respondents through questionnaires.

Due to the sensitivity of this information, most firms had reservations to give access to some of the information required. This challenge was addressed through elaborate explanations to the respondents that the study and data collected was purely for academic research and confidentiality would be upheld.

5.6 Recommendations for Further Research

The study established challenges of the top 100 midsized companies to listing at the NSE. This academic study recommends a further research on why the numerous tax incentives offered to encourage company listings have not yielded any results. A further study could also be undertaken to determine the relationship between company listing in stock market and financial performance of the listed companies.

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APPENDIX

Appendix I: Research Questionnaire

PART A: Firmo-graphics Profile

1. Number of years in operation

i. Below 3 yrs	( )	ii. 3- 6 yrs	( )
iii. 6-10 yrs	( )	iv. Over 10 yrs	( )

2. Major source of funding

i. Bank Loans	( )	ii. Venture Capital	( )
iii. Personal Income	( )	iv. Donor Funding	( )

3. What is the organization's annual financial turnover?

i. 50m-200 m	( )	ii. 200m-500m	( )
iii. 500m-800m	( )	iv. 800m-1 billion	( )

Part II: Challenges of Top 100 MSCs listing at the NSE.

To what extent are the following challenges encountered by your firm in listing at the NSE? Kindly Tick appropriately using the Likert scale provided.

5. To what extent have the following challenges affected your company from listing at the NSE?

	1	**2**	**3**	**4**	**5**
Challenges	**N.E**	**L.E**	**M.E**	**G.E**	**V.G.E**
Company Specific Challenges					
Company Size					
Company Age					
Level of Profit					
Company Structure					
Market Specific Challenges					
High costs of listing					
Legal & Regulatory frameworks					
Information asymmetry					
Undervaluing of share price during IPO					
liquidity					
volatility					

6. State any other challenge that are unique to your organization:

…………………………………………………………………………………………

…………………………………………………………………………………………

7. To what extent would the following benefits of listing impact your firms decision to list at the NSE?

	1	2	3	4	5
Listing Benefits	**N.E**	**L.E**	**M.E**	**G.E**	**V.G.E**
Accessibility to wide capital base					
Access to social prestige and status					
Diversified investors					
Improved business relations with stakeholders					
Mergers, acquisitions & share price discovery					
Improve corporate governance mechanisms					

8. Please state any other initiative by the NSE that would make you consider listing at the Security markets.

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