

**FACTORS INFLUENCING CROSS-LISTING DECISION BY KENYA
COMMERCIAL BANK**

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DECLARATION

This research project is my original work and has not been submitted for a degree in any other university.

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DEDICATION

To my family and friends

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TABLE OF CONTENTS

	Page
CHAPTER ONE: INTRODUCTION	1
1.1 Background of the Study	1
1.1.1 Cross Listing of Shares	1
1.1.2 Kenya Commercial Bank	2
1.2 Statement of the problem	3
1.3 Objectives of the Study	4
1.4 Importance of the Study	4
CHAPTER TWO: LITERATURE REVIEW	5
2.1 Introduction	5
2.2 Factors Influencing the Firm’s Cross-listing Decision	5
2.3 Firm-Level Factors Affecting Cross-listing Decisions	6
2.3.1 Industry	6
2.3.2 Amount of Foreign Sales.....	7
2.3.3 The Firm Size	8
2.4 Institution-Level Factors Affecting Cross-listing Decisions.....	8
2.5 Environmental Factors	9
2.5.1 Economic Environment	9
2.5.2 Legal Environment	9
2.5.3 Political Environment	10
2.6 Summary	12

CHAPTER THREE: RESEARCH METHODOLOGY	13
3.1 Introduction	13
3.2 Research Design	13
3.3 Data Collection	13
3.4 Data Analysis	13
CHAPTER FOUR: DATA ANALYSIS AND FINDINGS	15
4.1 Introduction	15
4.2 Reasons for cross-listing shares	15
4.3 Firm level factors influencing cross-listing decision	16
4.4 Environmental factors influencing cross-listing decision.....	16
CHAPTER FIVE: SUMMARY AND CONCLUSION	18
5.1 Introduction	18
5.2 Summary of key results	18
5.3 Conclusion	18
5.4 Limitations of the study	19
5.2 Recommendations for further research	19

ABSTRACT

This study examined the factors influencing the decision to cross-list shares at the Kenya Commercial Bank over the period 2008 to 2009. There are four main findings. First, the decision to cross list was influenced by the bank's regional expansion strategy. The bank's main aim is to be present in the whole Southern, Eastern and Central Africa region. It also wants to be a key player in commercial banking in the region. Secondly, the decision to cross-list was influenced by the firm level factors such as growth in size, increased regional presence and visibility and risk diversification. Thirdly, the decision to cross-list was influenced by environmental factors such as economic growth within the region, political stability, financial development and favorable regulatory regimes. Fourthly, the need to become a big regional player in the financial services industry influenced the Bank to cross-list her shares. This could be achieved partly through leveraging the bank's brand in the region.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Cross-listing refers to the process by which a firm incorporated in one country elects to list its equity on the public stock market of another country. There are so many factors that may motivate a firm to cross-list its shares. Some of these factors are the desire to obtain capital at a lower rate, achieve a higher share-valuation, enjoy increased liquidity and market depth for its shares and obtain greater market share for its products and services. There is also the desire to improve corporate governance.

Privatization, the sale of previously state-owned enterprises (SOEs) to private investors, has transformed financial markets around the world. An economic and political event as profound as privatization raises many important questions. Such questions include: why do governments privatize?, how do governments privatize?, and where (in which market) do governments privatize?

As summarized in Megginson and Netter (2001), financial economists have thoroughly examined the “why” question (see, for example, Megginson et al. (1994), Dewenter and Malatesta (1997), and Boubakri and Cosset (1998)) and the “how” question (see, for example, Jones et al. (1999), Boycko, Shleifer, and Vishny (1999), and Megginson et al. (2004)). On the other hand, the “where” question has received less attention. This study aims at identifying the factors that affect a firm’s decisions as to where to cross list their shares. Specifically, we examine the firm-level, institution-level factors and environmental factors that may affect why some share-issue are done exclusively on domestic equity markets while others involve cross-listings.

1.1.1 Cross Listing of Shares

The focus on cross-listing decisions by firms is of significance of these share offerings. Bortolotti et al. (2002), Megginson and Netter (2001), and Boutchkova and Megginson (2000) found that initial public offerings involving privatization (IPOIP) are very large and very important equity offerings. Furthermore, Bortolotti et al. (2002) noted that of the world’s 21 largest equity offerings, 15 of these IPOIPs involved listing shares on more than one exchange. Thus, since they typically involve

cross-listings, an understanding of IPOIPs is critical to understanding cross-listing in general. Indeed, in his seminal survey of the cross-listing literature, Karolyi (1998) examines firms involved in privatizations (Telefonos de Chile, Huaneng Power, and Deutsche Telekom) as his three examples of reasons for cross-listing. Consequently, to illuminate these substantial stock offerings, this focuses on factors driving the cross-listing decisions of firms on the Nairobi Stock Exchange (NSE).

Furthermore, globalization has intensified competition between stock exchanges thus increasing the importance of where the firm cross lists its shares. Zingales (2007), Ernst and Young (2007), and Karolyi (1998) show how globalization of capital markets has intensified the efforts of the world's stock markets to attract the largest capital flows. Therefore, to better understand how exchanges compete, we need to more closely consider how firms make decisions about the choice of a cross-listing location. In this empirical study we seek specific firm-level, institution-level and environmental factors that may influence a firm's decision to cross list its shares on other stock exchanges in the world.

1.1.2 Kenya Commercial Bank (KCB)

Kenya Commercial Bank was formed after the nationalization of the National and Grindlays Bank in 1970. It was the third parastatal commercial bank to be formed after the Cooperative Bank and the National bank, which were formed in 1965 and 1968, respectively (Brownbridge, 1998).

The Kenya Commercial Bank has had commercial objectives. Initially it had some development objectives as well. It had been under a management contract by Grindlays up to the mid 1980s. Comparatively, KCB has been relatively free from government interference/influence compared to the National Bank of Kenya (NBK) (Brownbridge, 1998). In terms of total assets and customer deposits, KCB hold 15.75 and 14.13, respectively, as at the end of 2008 (Banking Survey, 2009). It also has the largest branch network in the country. KCB has mobilized a large proportion of the customer deposits from the public sector and a significant part of their loan portfolio is to the public sector (Kariuki, 1993). From 1986 up to the present, KCB has launched a major expansion program nationally and regionally. The focus has been extending financial services to the unbaked population nationally and in the East and Central African region. The impact of implementing these expansion programs on

profits was negative in the initial years. Many branches could not break-even. However, in the recent past, KCB has recorded impressive returns, which have acted as the impetus for regional expansion.

Unlike NBK, KCB benefited from the management and commercial banking culture of its immediate predecessor, Grindlays Bank. This ensured that KCB avoided the commercial mistakes that NBK committed. For instance, KCB avoided accumulating a large share of non-performing loans on its books through prudent lending. It was also able to obtain its financing at low cost thereby boosting significantly its profitability. Kenya Commercial Bank has issued new shares on the Nairobi Stock Exchange, the Kampala Stock Exchange, the Dar es Salaam Stock Exchange and lately, on the Rwanda Stock Exchange

1.2 Statement of the Problem

There is extensive literature that examines cross-listings and the impact on corporate governance (Coffee, (1999); 2002; Stultze, (1999); La Porta et al; (1997); (1998); (1999); (2000); (2002). However, there are several unanswered questions. One of the most important void in the literature is the empirical evidence on the determinants of firms' cross-listing decision on the Nairobi Stock Exchange. Furthermore, irrespective of country context, evidence on the determinants of the firms' cross listing decision is mixed (Dojige, et al, 2006; 2007; Reese and Weisbach, 2000; Johnson, et al., 2000). More specifically, is it through improved corporate governance? Or is it due to other factors like improved ability to raise capital on favourable terms?

In Kenya, Nyamute (1998) examined the influence of macro economic factors on stock returns. Kimani (2008) studied the effect of commercial Bank efficiency on stock returns in Kenya. Nzioka (2007) examined the impact of management experience on the efficiency of commercial banks in Kenya. Available literature on the relationships between firm value and efficiency is still limited. More so the literature directly examining the factors influencing firm's decision to cross list. This study aims at contributing toward filling this gap by answering the question: What factors influence Kenya commercial bank's decision to cross list her shares?

1.3 Objective of the Study

The objective of this study is to determine the factors that influenced Kenya Commercial Bank's decision to cross-list her shares.

1.4 Importance of the Study

The question of what factors influence the firm's cross listing decision is important to shareholders and other financiers of corporate firms. The cross listing decision influences the corporate governance issues of the firm and its liquidity. These two factors are not only important to shareholders but also to the management of the company.

Competitors are keen to know the rationale behind a particular firm's decision to cross list. This is important in order for them to compete effectively if they can access the advantages that a cross listed competitor enjoys.

Finance directors and corporate treasurers need information to explain changes in their competitors' agility, profitability and value. If cross-listing affects these variable positively then it will be an incentive to other firms to cross-list.

Another group that may benefit from this study is central bankers and regulators, who seek to develop local capital markets and evaluate their policy or systemic implications. Knowing which factors influence cross-listing of shares will help them to make local capital markets to foreign firms. This improves financial development and economic growth.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This section is a review of the literature on factors that influence cross listing decision. Section 2.2 examines factors that influence the firm's cross listing decision. Section 2.3 presents the firm specific factors influencing the cross-listing decision of firms. Section 2.4 examines the institutional factors influencing the firm's decision to cross-list. Section 2.5 examines the environmental factors influencing the firm's decision to cross-list. Lastly, Section 2.6 is the summary of the literature review.

2.2 Factors Influencing the Firm's Cross-listing Decision

The survey article by Karolyi (1998) of the existing literature found that firms cross-list securities for several reasons: to gain liquidity and avoid cross-border barriers of investment, to obtain access to deeper pools of capital, to enhance the firm's visibility and bolster name and product recognition, and to build credibility by bonding to markets that ensure stronger shareholder protection.

LaPorta et al. (1997, 1998) argued that firms in countries with weaker legal protection for minority shareholders find it difficult to raise money in their own country. Therefore, to increase credibility and create opportunities for future capital acquisition, these firms may choose to cross-list in markets where shareholder rights are more strongly protected. In particular, firms wishing to demonstrate a higher level of protection for minority shareholders can achieve this through listing their securities in capital markets with stronger legal rights to minority shareholders. Coffee (2002) labels this as "bonding". This has given forth the **bonding hypothesis** of cross listing. For instance, firms listing shares on the NYSE (New York Stock Exchange) or NASDAQ (National Association of Securities Dealers Automated Quotations) must follow to stringent disclosure requirements compared to listings on other exchanges.

The bonding effect has a positive impact on firms with larger growth opportunities and therefore requires continuous access to capital. Doidge, et al. (2004) found that companies' cross-listing in the U.S. had significantly higher growth options than non-cross-listed firms from the same country. Doidge, et al. (2004) argued that a U.S. cross-listing reduces the extent to which controlling shareholders choose to engage in expropriation and thus increases the firm's ability to exploit available investment

opportunities. Doidge, et al. (2004) further demonstrate that growth opportunities are more for firms that choose to cross-list in the U.S. Karolyi (1998) also provides a summary of other studies that have found that stock prices increase in the home market at the announcement of cross-listing.

Other empirical studies report that firms with a large demand for equity capital have incentives to cross-list in the U.S. as a way to bond themselves to protect minority shareholders. Reese and Weisbach (2002) found a large increase in both the number and value of equity offerings following a cross-listing. They also report that after initial cross-listings in the United States, firms from weak-protection countries are more likely to raise additional capital through a subsequent equity offering. Further, they showed that firms from strong-protection countries are less likely to do follow-on equity offerings. These findings are consistent with the bonding hypothesis.

Foerster and Karolyi (2000) examined the long-run return performance of non-U.S. firms that cross-list in the U.S. market. They found that firms issuing equity by Rule 144A private placement under-perform, especially those that come to the U.S. from countries with weaker accounting standards. This result also supports the bonding hypothesis in that Rule 144A offerings do not require as extensive disclosure as in public U.S. offerings. Minority shareholders are still faced with the same level of expropriation risk. Therefore, as briefly surveyed above, the available empirical evidence shows that different factors influence cross-listing decisions of firms.

2.3 Firm-Level Factors Affecting Cross-Listing Decisions

This section looks into firm-level characteristics that may influence the decision of firms to cross-list. This includes Industry related factors, volume of foreign sales, as well as the firm size.

2.3.1 Industry Related Factors

The industry of the firm may affect the firm's cross-listing choices. Certain exchanges have the reputation and infrastructure to better handle listings from specific industries. Pagano et al., (2002) and Blass and Yafeh (2000) argued that U.S. stock markets are better suited for listings by high-tech firms. They contend that high-tech firms are attracted to New York because the larger number of informed analysts and investors who have an insight of the particularities of the industry. This also contributes to a

more efficient flow of information. While New York stock exchanges (especially NASDAQ) are better known as a listing destination for high-tech firms, Pagano et al. (2002) found that the European markets appear to attract listings by more mature companies.

Further, Pagano et al. (2002) and Saudagaran (1988) found a “follow the leader” effect. This is whereby firms are compelled to cross-list in the same markets as their competitors. This industry clustering allows comparisons between peers and offers an opportunity for a better assessment of risk and relative valuation. Pagano et al. (2002) demonstrate that a firm’s cross-listing decision is positively related to the number of companies in the same industry that are already listed on a specific exchange.

Moreover, Sarkissian and Schill (2004) and Kang and Stulz (1997) report that firms that produce tradable goods are more likely to cross-list than those producing non-tradable goods. This is the case because tradable goods are widely known by foreign investors. According to Merton (1987), the “investor recognition” hypothesis holds that investors are more likely to purchase shares of companies that are better known. Therefore, firms selling tradable goods in a specific country should find that market more receptive to an equity offering. Further, the publicity and visibility that emanates from the firm’s listing and subsequent trading will boost marketing efforts and provide a form of advertising at low cost (Fanto and Karmel, 1997; Saudagaran and Biddle, 1995).

2.3.2 Volume of Foreign Sales

The amount of a firm’s foreign sales may also influence the decision to cross-list. Sarkissian and Schill (2004), Pagano et al. (2002), and Saudagaran (1988) contended that cross-listing is more likely if a firm generates a significant proportion of its revenue from foreign sales. As already noted above, investors are more willing to purchase the shares of firms that are well-known to them. The cross-listing and trading of shares in another country may enhance the image of the firm and its products and help to further drive demand in that market.

2.3.3 The Firm Size

Bailey et al. (2006), Pagano, et al. (2002), and Reese and Weisbach (2002) showed that larger firms are more likely to cross-list for two reasons. First, a larger firm will be able to more easily bear the substantial fixed costs associated with a multi-nation

listing. Secondly, a bigger firm will typically be raising a greater amount of capital per offering. Especially for firms located in countries with smaller equity markets, the home exchange may not have the absorptive capacity to solely handle the offering. Megginson and Netter (2001) and Boutchkova and Megginson (2000) found that many privatizing share offerings are huge; cross-listing may be required to avoid overwhelming the local market.

2.4 Institution-Level Factors Affecting Cross-Listing Decisions

Institution-level factors also influence cross-listing decisions of firms. Bortolotti et al. (2002) found that institution-level factors may actually be more significant than firm-level characteristics in determining the decision to whether and where to cross-list. The level of development of the firm's local capital market may affect a firm's cross-listing decisions. Furthermore, Doidge et al. (2007), Boehmer, et al. (2005) and D'souza et al (2005) identified that institutional factor (such as legal protection for minority investors and the level of economic and financial development) explain more of the cross-country variance in financial policies than do firm-specific characteristics. The overall development of the firm's country capital market may affect the firm's cross listing decision. If the domestic equity market is relatively primitive, it may be difficult for share-issue privatizations to succeed. This is partly due to the fact that it is difficult to find buyers for the frequently very large offerings. It is therefore expected that firms in countries with small equity market may find that cross-listing is necessary to be able to place all of the shares in a large offering.

The relation between financial market development and cross-listing choice is ambiguous (D'Souza and Megginson, 1999). Governments may decide to float more shares on the domestic exchange to spur the development of the local capital market. However, large public offerings might not be efficient or even possible in thin equity markets.

2.5 Environmental Factors

Also Doidge et al. (2007), Boehmer, et al. (2005), and D'Souza, et al (2005) report that institutional factors such as legal protection for minority investors and the level of economic and political development explain more of the cross-country variance in financial policies than do firm-specific characteristics.

2.5.1 Economic Environment

Bortolotti et al. (2002) analyze privatizations in 20 OECD (Organization for Economic Co-operation and Development) countries. They found that institutional factors play a significant role in the structuring of privatizing transactions in developed economies. However, Boehmer et al.(2005), D'Souza et al. (2005), Lang et al. (2003), and Ball et al. (2000) found that there are substantial institutional differences between developing and developed markets. Moreover, Bailey et al. (2006), Sarkissian and Schill (2004), and Foerster and Karolyi (1999) report the differential effect of cross-listing by firms from developed and developing markets. In conclusion, factors affecting cross-listing decisions may vary across developing and developed economies.

According to Zingales (2007), Lang et al. (2003), Baker et al. (2002), Chaplinsky and Ramchand (2000), and Alexander et al. (1989) an international listing enhances the visibility and promote analyst and media coverage. In a survey article, Fanto and Karmel (1987) found that firms explicitly target U.S. offerings because of the prestige and attention brought about by a cross-listing in New York. Also Bailey et al. (2006) argued that the information enhancement from a U.S. listing is even more pronounced for firms domiciled in poor disclosure environments such as those in many emerging stock exchanges.

2.5.2 Legal Environment

Normally, firms face tradeoffs when making cross-listing decisions. An issuing firm can choose its level of disclosure since the quality and rigor of accounting standards and legal protection vary by exchange. This is called the phenomenon of *issuer choice* (Coffee 2002; Choi and Guzman, 1998; Romano, 1998). It is commonly believed that U.S. markets have the highest disclosure requirements (Coffee 2002; Reese and Weisbach, 2002 and Stulz, 1999). Higher disclosure standards and stronger protection of shareholder rights provided by U.S. exchanges may contribute to higher valuation and a greater ability to raise equity capital in follow-on offerings. However, these stricter institutional standards can also reduce the value of the private benefits of control. Thus, when deciding to cross-list, a firm must trade-off the costs and benefits that may result from moving into a different legal environment.

Available evidence (Doidge et al., 2006, 2007; Lang et al., 2003; Pagano et al., 2002;

and Reese and Weisbach, 2002;) stresses how the private benefits of control influence the issuer's cross-listing decision. In particular, if there are higher private benefits of control within a firm the majority owners of those firms may seek to protect the private benefits and avoid listing on a high-disclosure exchange. Johnson et al. (2000) found that in some countries such as those with civil law systems, it is easier for controlling shareholders to exploit private benefits of control. This attributed to the lower levels of legal protection and lower amounts of accounting transparency contributing to greater private benefits of control in these countries.

However, a listing in the U.S. ensures stronger legal protection for minority shareholders. Doidge et al. (2006, 2007) and Reese and Weisbach (2000) argued that this decreases the private benefits of control. Moreover, cross-listing in a market with strong institutions provides greater credibility. This increases the firm's value and improves its ability to raise additional capital in subsequent offerings. For these reasons, Doidge et al. (2006), Sarkissian and Schill (2004), and Reese and Weisbach (2002) suggested that firms from a weaker institutional environment have greater incentives to cross-list in a market that ensures stronger protection for investors. This supports the bonding hypothesis. But as noted above, owners of firms operating in weaker institutional environments typically enjoy the greatest private benefits of control. These benefits of control would be reduced by a cross-listing. Consequently, the prediction regarding how legal environment affects cross-listing is less clear.

2.5.3 Political Environment

The private benefits of control are more intricate in the context of privatizations. Like in private firms, the majority shareholder in public enterprises (the state) can extract economic benefits consistent with the tunneling described by Johnson et al. (2000). Perhaps more importantly, in a public enterprise, it is a must also to consider the political benefits that accompany the value of control that the state enjoys as majority shareholder. In public enterprises, large benefits of control may arise from the use of the firm's resources for political advantage. In particular, Megginson and Netter (2001) and Boycko et al. (1996) argued that the political benefits of state ownership include the use of parastatals to reward constituents, For example, by providing jobs, favorable pricing, and off-balance sheet financing through government loans and to also garner political support by using parastatals for social/political purposes. Because of political value associated with parastatals, it appears that the parastatals

controlling entity holds even stronger private benefits of control than if in a privately-owned enterprise.

Consequently, the state's private benefits of control in a parastatal may be substantial. However a public official's ability to extract economic rents from parastatals may be limited by institutional structure. Boehmer, et al. (2005) applied country-specific variables to model the amount of political benefits that may be extracted from state ownership. Such variables include measures of political risk, democratic accountability, transparency, and freedom of information (e.g., extra-legal factors of Dyck and Zingales (2004)). For example, greater public accountability would suggest less tolerance for off-budget financing of government, targeted spending on favored constituents, and other uses of SOEs (state owned enterprises) for political advantage. Granted that politicians who are more accountable to voters may be less willing to expropriate value from parastatals, these politicians should attach lower value to the private benefits of control. Therefore, greater accountability to voters, by limiting the ability to extract political benefits from parastatals, should increase the likelihood of cross-listing. This is especially the case when cross-listings in a market providing stronger protection of shareholder rights. This argument is supported by Bortolotti and Pinotti (2003) who found that the likelihood of privatization increases as politicians face more competitive elections. Boehmer et al. (2005) also showed that the level of democratic accountability significantly affects the likelihood of the privatization of state-owned banks.

2.6 Summary

The decision by the firm to cross-list is influenced by firm level factors, institutional factors and environmental factors. The literature review has also demonstrated that cross-listing improves the stock prices, stock returns and the value of the firm. However, empirical studies on the factors that influence firms to cross list in Sub Saharan Africa (SSA) are scanty. This study attempts to fill the above gap by examining the specific factors that influence the firm's decision to cross-list.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter explains the research methodology applied in the study. Section 3.2 presents the research design. Section 3.3 examines the data collection process while section 3.4 discusses how the data collected will be analyzed.

3.2 Research Design

In order to identify the factors that influence the firm's decision to cross-list, the study adopted a case study approach. The rationale is that there are only two commercial banks in Kenya that have cross listed their share. These are KCB and Equity Bank; the cross listing of the latter being fairly recent, thus the choice of KCB in this study.

3.3 Data Collection

There are 50 regionally cross-listed firms in Sub Saharan Africa (SSA). Of these, 5 companies are listed in the Nairobi stock Exchange. The sample size consisted of five stocks based on the availability of all data relevant to the study. These are firms with

primary listing on the Nairobi Stock Exchange and secondary listing in Uganda and Tanzania. The period covered started from 2001 to 2009 June.

An interview guide was used. First, lists of factors known to influence the cross-listing were outlined. The respondents were the bank's Senior Managers. The managers were asked to indicate the factors they took into consideration before cross-listing. Secondly, the respondents were asked to rank the factors using a Likert scale. Using the averages computed from the responses, the factors were then extracted.

3.4 Data Analysis

Data on factors that influence the cross-listing decision of firms was obtained using an interview guide. Factor analysis technique and the Principal component analysis technique were used for analysis. Theoretically, the relationship between the decisions to cross-list is positively influenced by the size of the Industry. The relationship between cross-listing and size is positive. Cross-listing is an ordinal variable taking the value 1 or 0 for cross listing and no cross-listing respectively.

Industry is also defined by 1 or 0 for positive and negative impact respectively. Size being an ordinal variable is also measured by 1 or 0 for positive or negative impact respectively.

Economic environment is measured by 1 or 0 as defined above. Likewise legal environment is measured by 1 or 0 for positive or negative impact respectively. Political environment is indicated by inflation rates in the economy.

The data collected was analyzed by tallying the number of times a particular factor had been mentioned as either positively or negatively influencing the decision to cross-list. The summary of the tallies presented in tables and pie charts was used to draw conclusion on each factors' influence on the decision to cross-list.

CHAPTER FOUR

DATA ANALYSIS AND FINDINGS

4.1 Introduction

This chapter presents the results of the data analysis. Section 4.2 presents the reasons for cross-listing. Section 4.3 examines the firm factors and Section 4.4 presents the environmental factors that influenced cross-listing. Section 4.5 is the summary.

4.2 Reasons for Cross-Listing Shares

The analysis of the data showed that there are many reasons for the firm to cross-list. The respondents gave four reasons in the study: First, the recent growth in regional stock markets such as the Dar es Salaam Stock Exchange, Kampala Stock Exchange and the Rwanda Over-the Counter Market. The opening and expansion of such markets provided the opportunity to tap into regional capital markets.

Secondly, the move towards a common East African Community Union was certainly another key factor. The efforts to form a Common Market have motivated banks to open shops regionally. This also serves to increase their customer base. Further, it has helped in the diversification of the banks portfolio of assets.

Thirdly, the cross-listing decision was based on the feasibility study done by the Bank. The results indicated a good opportunity for regional expansion. Thus, efforts by Kenya Commercial Bank to move into the regional market were in line with her strategy.

Lastly, the good legal regime in the region provided the impetus for the Bank to cross-list. A favorable regulatory regime with possibly less restriction on repatriation of profits, interest and dividends acted as a big incentive for the Bank to cross-list her shares regionally.

4.3 Firm Level Factors Influencing the Cross-Listing Decision

The results indicate that there were three firm level factors that influenced the cross – listing decision. First, was the need to be a big regional player. The bank, as indicated by her strategy intended to be present and be felt regionally.

Another reason was the need to raise capital to finance her expansion strategy regionally. This also provided an opportunity for investors in the region to feel part of the bank by owning it through shareholding.

Thirdly, there was the need to mitigate risks arising from volatility in interest rates, inflation rates and foreign exchange rates. This diversification could only be achieved by moving out of the domestic market into the regional market and beyond.

However, the most important factor, at the firm level, was the need to be a big regional player in banking and financial services

4.4 Environmental Factors Influencing Cross- Listing Decision

The respondents showed that all factors relating to the East African Union road map influenced the decision to cross-list regionally. These are as follows. First, the high rates of economic growth in Uganda, Tanzania and Rwanda. Second, the favorable regulatory region epitomized by the East African customs union. Thirdly, a stable political environment, especially in Rwanda and the Sudan as well as the financial developments across the region.

The region has witnessed fast growth rates in Tanzania (7% p.a.) and Uganda (6% p.a.). This has been accompanied by the increase in wealth of the middle- income group in the entire population. As a consequence, this has boosted the demand for

financial services in the region. The Bank's decision to cross list is therefore motivated by the unmet needs of this middle income group.

Unlike in the early 1970s up to early 1990s, with the exception of Sudan, the region has been politically stable. The signing of the peace Accord in Sudan also opened up the southern Sudan region to international business. Rwanda, after the 1994 genocide, has become the focal point of business regionally, especially in the real estate sector. Generally, economic prospects in Rwanda have attracted many investors from near and far a field. Tanzania and Uganda have also been tranquil from the late 1980s up to present. Though, the specter of mistrust continues to overshadow the integration of the East African community, this has not affected the political good will that is the driving force behind the whole integration process.

The regulatory regime has also evolved along with other environmental factors. Tanzania and Uganda, as well as Sudan and Rwanda, have put in place good laws to govern the conduct of business. These cover the whole process from licensing up to repatriation of profit, interest and dividends. At the moment, many investors are shifting a way from the Kenyan market in favour of other regional economies on account of good regulatory regimes. The bank has also been swept by this torrent of regulatory incentives.

Lastly, development in the financial sector, especially in Kenya, has motivated the bank to look out to other regional economies for expansion. Innovations in financial products locally compared to other economies have given the bank a competitive advantage in the regional market. The developments have been boosted by good ICT infrastructure that has help reduce costs and improve operational efficiency at the bank.

CHAPTER FIVE

SUMMARY AND CONCLUSION

5.1 Introduction

This chapter provides the summary and conclusions of the study. Section 5.2 presents the summary of key findings section 5.3 examines the main conclusions. Section 5.4 discusses the limitations of the study. Section 5.5 presents the recommendations for further research.

5.2 Summary of Key Results

This study examined the factors influencing the decision to cross- list shares at the Kenya commercial Banks over the period 2008 to 2009, there are four main findings. First, the decision to cross – list was influenced by the banks regional expansion strategy. The Bank aims to have significant presence in the whole Southern, Eastern and Central Africa region. It also endeavors to be a key player in commercial banking.

Secondly the decision to cross- list was influenced by firm level factors such as growth in size, increase in regional presence as well as visibility and risk diversification.

Thirdly, the decision to cross – list was also influenced by environmental factors such as economic growth, political stability, financial development, and favorable regulatory regimes in regional economies like Sudan, Uganda, Tanzania and Rwanda.

Fourthly, the need to become a big regional player in the financial services, industry greatly influenced the Bank’s decision to cross-list. This could be achieved through leveraging the Banks Brand in the region.

5.3 Conclusion

The following conclusions are drawn from the analysis and results of chapter four. First, the banks strategy is an important factor in deciding when and where to cross list. Second, the need for diversification of risk bears a big influence on the decision to cross – list. Typically, a firm enters into a market which moves in the opposite direction to the domestic market. This serves to stabilize revenues, profits and dividends over the long-run. Thirdly, the environment of a business has a significant

influence on the decision to cross- list. Specifically, the rate of economic growth, the regulatory regime, the political stability and the level of financial development matters a great deal.

Lastly, the vision and mission of the firm are key delimiters in the firm's decision to cross list. Thus, a firm which perceives herself as a purely domestic firm may have little incentive to venture beyond its national borders.

5.4 Limitations of the Study

The main limitation of this study is the generalization of the findings. The results obtained in this study may not hold for other banks. Further research needs to be carried out to corroborate the findings of this study.

5.5 Recommendations for Further Research

In the light of the above limitation, this study recommends that future research focus not only on other banks that have cross – listed shares regionally, but also to other non banking firms. The aim will be to determine the extent to which the results obtained here hold across the Banking industry as well as other firms in different sectors of the economy.

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