

**DETERMINANTS OF THE DECISION BY COMPANIES TO LIST AT THE
NAIROBI SECURITIES EXCHANGE**

BY

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DECLARATION

I certify that this research project is my original work and has not been presented for a degree in any University.

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

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DEDICATION

This research study is dedicated to my daughter Gloria, son Gabriel and husband Reuben for their moral support throughout the entire MBA programme especially during this research project.

ABSTRACT

Deciding whether to list company on the Nairobi Stock Exchange (NSE) is an important decision. Joining one of the NSE's markets provides a company with the opportunity to benefit from improved access to capital, increased global profile and access to liquidity. The NSE facilitates, among others, a principal activity in the financial system. It enables firms to gain access to long-term investable funds by issuing company shares and debt securities to the public. Currently at the NSE, only 61 companies are listed, to raise the additional capital firms opt to other sources of capital other than listing in the stock exchange. The research objective of this study is to identify the factors that determine company's listing decision on the NSE. The study adopted descriptive method was adopted because it ensured complete description of the situation, making sure that there is minimum bias in the collection of data .The target population in this study of 20 companies was selected based on company size as required by the NSE listing requirements where a company must have an asset base of one hundred million shillings. The population selected comprised of large private companies as well as those listed on the NSE. Primary data was collected to gather qualitative information from the target respondents outlining issues relevant to the study. The study used quantitative techniques in analysing the data. Discriminant analysis was used to determine which variable(s) are the best predictors of companies' decisions to list at the NSE. The study concluded that stock market liquidity, volatility, political environment and the legal and regulatory framework and political factors had a significant influence on company listing decisions. The study also concluded that volatility of stock returns affected the return on investment and growth by disturbing the average portfolio risk significantly influencing company listing in stock market. There existed positive relationship between stock market development and company growth hence the need to company expansion influence company's listing decision in the stock market. The high volatility would have a negative influence on company listings as would be the case when it is measured using the standard deviation of annualized returns. This study concluded that the higher the index the more likely companies would be to list.

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LIST OF ABBREVIATIONS

ERS – Economic market strategy

IFRS –International Financial Reporting Standards

CMA– Capital Markets Authority

NSE–Nairobi Securities Exchange

IPO– Initial Public offering

CBK– Central Bank of Kenya

LSE-London Stock Exchange

KEPSA -Kenya Private Sector Alliance

WFE-World Federation of Exchanges

MIMS- Main Market Investment Segment

AIMS- Alternative Investment Market Segment

GEMS- Growth Enterprise Market Segment

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

Going public is a process by which shares of common stock are first offered for sale in the public markets (through the organized exchanges or over-the-counter); also called an initial public offering (IPO). In deciding whether to seek a listing, a company should consider the alternative financing needs available and the benefits versus the drawbacks of listings. Capital markets help to mobilise savings for productive investments as companies have more choice in long-term finance between equity and debt finance, the former often being more advantageous in recessionary periods. Entrepreneurs, on the other hand, can diversify their risks, and investors have access to new instruments. By encouraging the separation of ownership and management, stock markets help to allocate capital and thus monitor the corporate sector and improve managerial and organizational efficiency (Bohnstedt, Hannig& Odendall, 2000). Hence capital markets can play an important role in furthering economic growth by making the financial sector more liquid and competitive. This is recognized by many developing countries that strive to establish domestic stock exchanges.

Why some firms go public and others remain private remains something of a mystery. Though textbooks describe the conversion from private to public ownership as an inevitable consequence of (or necessity for) growth, IPO firms display substantial cross-sectional variation in terms of size, age, profitability, and numerous other characteristics. Though private firms are undoubtedly smaller on average than their public counterparts, examples of very large private companies abound.

1.1.1 Listing decision at the Nairobi Stock Exchange

Deciding whether to list company on the Nairobi Stock Exchange (NSE) is an important decision. Joining one of the NSE's markets provides a company with the opportunity to benefit from improved access to capital, increased global profile and access to liquidity.

According to the NSE listing manual, updated July 2013, the decision to list a company needs to be made once one has realistically assessed its company, its management, resources, and stage of development, long-term strategy, goals and future prospects. One would also need to consider the timing of a listing in terms of market conditions and where the business is at that point in time. One would also be required to appoint advisors such as stockbrokers/investment bank, legal team, accountants, marketers etc. The advisers appointed all play their part in making sure the company satisfies the rules and regulations and meets the market's expectations. In addition, Public companies have to adhere to certain rules and regulations, which differ according to the market the company joins, and also have to meet accepted standards of corporate governance.

A company will need to persuade investors – in Kenya, East African region and if need be, around the world – of the qualities of the company and its prospects, so that they will be prepared to invest in that company in regards to the qualities of your company and its prospects, so that investors will be prepared to invest in the company and ensure the success of the flotation. The owners will need to demonstrate that the business is soundly managed, and the company has a robust business plan and that the management has the right skills and commitment.

The NSE listing guide 2011 demonstrated that there are three principal ways of going public, ranging from an 'introduction' – a market where no new money is raised – to the

‘initial public offering’ (IPO), where institutions and private individuals are invited to subscribe. In between is a ‘private placing’ in which shares are offered for sale on a selective basis, primarily to institutional investors. Company’s choice depends on the nature of your business and its capital requirements. This study shall focus on the IPO means of going public.

According to Brigham, E & Gapenski, (1997), most businesses begin life as proprietorships or partnerships, and then, as the more successful ones grow, at some point they find it desirable to convert into corporations. Generally, new corporations’ stocks are owned by the firm’s officers, key employees and/or a very few investors who are not actively involved in the management .However, if growth continues, at some point the company may decide to go public by listing on the bourse.

There are several explanations as to why firms go public. Conventional wisdom suggests that the public offering represents a stage in the growth phase of a firm (Jain and Kini, 1999, Mikelson et al 1997) at it attempts to raise cheap additional funds through the IPO. In the post IPO phase, the firm can evolve into one of three basic states. It can survive as an independent firm, fail outright or get acquired and lose its current identity (*ibid.*). The scarcity of empirical evidence, especially for IPOs, is primarily due to the difficulty of obtaining data on private firms. Without data on the *ex ante* and *ex post* characteristics of both public and private firms, drawing conclusions about the factors that influence the going-public decision is treacherous (Rosen, Smart and Zutter, 2005). What is clear is that in more developed markets, private firms with growth prospects eventually go public to finance investments, all other factors being constant. This however does not explain the existence of several large successful private firms with further growth prospects.

Another explanation in the literature suggests that firms go public not to finance growth but rather to rebalance their accounts after a period of high investment and growth (Rydqvist and Hogholm, 2006). This finding, which is based on empirical data for Italian, Swedish and Spanish companies, is rather surprising because it is counter intuitive. One would expect that firms would have no need to go public having raised capital from elsewhere for growth and expansion. Once growth opportunities have been extinguished, the need to go public so as to raise additional capital disappears.

Going public represents the first stage in the sale of the firm (Zingales, 1995). Firms make an IPO in order to obtain a market valuation for their assets, which facilitates the sale of the firm either gradually through reduction of ownership or immediately through an acquisition. A stock market listing enables companies to know the value of their investment at any time and thus provides a yardstick for evaluating management efficiency.

1.1.2 Determinants of company listing on the securities exchange

Pagano, Panetta & Zingales (1998) in a detailed empirical analysis of the major determinants of IPOs, established that there are three major factors that determine a company's choice to go public: the stock market valuation of other firms in the same industry, the company's size and the destination or use of raised funds. NSE is a stock market in a developing country in Africa, thus has unique challenges accruing to it. Following Andrianaivo & Yartey's IMF working paper of 2009 (09/182), Yartey (2008) and Yartey & Adjasi (2007) the market specific determinants chosen for this study are: stock market liquidity, stock market volatility, market infrastructure, the regulatory and legal framework and political risk. From literature there are very few studies (Capasso,

2006; Pagano, Panetta, & Zingales, 1998) that have considered the company-specific factors that may affect the listing of companies. The main factors identified are: the corporate financing decisions, profitability, size and age of the company.

According to Capasso (2006), the decision of a company to go public and to issue shares is a complex one and it depends on the market related factors as well as the internal environment of the company. However, in practice the decision to enter the stock market also involves the comparison of a wide array of costs and benefits in a company attempting to form the optimal financial or capital structure.

This study will aim at establishing whether the above mentioned factors determine the listing decision of companies in Kenya on the NSE.

1.1.3 Relationship between listing decision and its determinants

Market specific factors

Market Specific factors are outlined below:

Stock market volatility is the systematic risk faced by investors who hold a market portfolio (Guo, 2002). Guo established that there is a link between the volatility of the market and the cost of capital. An increase in market volatility raises the compensation that shareholders demand for bearing the systematic risk. Before a company issues equity it has to consider the return it would be willing to offer its investors. According to Guo (2002) therefore there would be reduced investment and use of capital markets by the corporate sector. Companies would be deterred to list on the public exchange causing stagnation in the development of the stock market due to the heightened cost of access to capital. this is a similar argument that Guo (2002) had used in relation to cost of capital

where he noted that a lack of sustained buoyancy of the market tends to increase it thus deterring investors from the market as it would be too expensive.

Asea (2003) defined the legal and regulatory framework for the stock market as an enabling environment to encourage the participation of enterprises in the stock exchange. This framework is comprised of elements defined by the government that facilitate the functioning of the market; i.e. enhance functional efficiency. Yartey (2008) outlined the elements that constitute the legal and regulatory framework as: adequate disclosure, listing requirements and fair trading practices. Pagano, Panetta, & Zingales (1998) established that the functioning of the stock market enabled by the framework provided has an effect on whether or not the stock market provides a platform as a source of funds (cheaper long term) to enable the company re-balance their capital structure and thus diversify their risk.

The political environment was characterised by Girma & Shortland (2008) as based on the degree to which narrow elite controls the levers of power and the level of regime stability on changes in financial development”. In assessing the challenges facing African stock markets Yartey & Adjasi (2007) used the term political risk and characterised the political environment based on law and order, democratic accountability and bureaucratic quality. Both these studies found that the political environment plays a major role in the course of the market’s development.

In explaining market liquidity Levine (1991) established that liquid stock markets allow for investors to alter their portfolios quickly and cheaply thus making it less risky and offer opportunities for longer-term investments. This is echoed by Senbet & Otchere (2008) who established that where a market cannot provide liquidity and possible exit

strategies then there is a gap in its functional efficiency. Consequently the more liquid the stock market the larger the amounts of savings channelled through the stock market and the higher the opportunities are for it as a source of capital for companies.

Company specific factors

Based on the pecking order theory of corporate financing proposed by Donaldson (1961) where internal funds are preferred to external funds and that most companies avoid issuing new shares in consideration of issue costs. In this regard, the capital markets are seen as a source that the companies shy away from and opt for revenue surplus then debt financing and in the very last place equity financing. Capasso (2003) had earlier established that the optimal capital structure desired by a company to finance risky investment projects would determine its proportionate use of equity and debt financing. In this regard, the rebalancing of the capital structure initially funded using debt financing would drive a company to issue stock on the equity market. This need to rebalance has been influenced by the high cost of bankruptcy associated with debt financing as established by Capasso (2006).

In an analysis on why companies go public Pagano, Panetta, & Zingales (1998) found that the internal framework of the specific company's financial needs will determine their listing or lack thereof on the public market. This argument is picked up by Capasso (2006) where he finds that the development of the banking sector in any economy is directly related to the number of companies listed on the exchange due to the companies' need for balancing in the debt and equity financing mix.

Pagano et al. (1998) in their research to determine the relationship between economic growth and financial markets development; company size was found to be the second

most important determinant for a company listing. They established that the size of the company as measured by asset base (total assets) increases the probability of the company's decision to go public.

Pagano et al. (1998) found a positive relationship for their hypothesis that the longer the company has been in existence the more likely it would be to publicly list. Pagano et al. (1998), Ritter & Welch (2002), Capasso (2006) and Yartey (2008) all offered the explanation for older companies going public in comparison to the younger ones based on the regulatory requirement of positive annual earnings for a consecutive three years prior to listing.

According to Pagano, Panetta & Zingales (1998) the profitability of a company measured using the Profit after Tax may have an effect on the probability of a company going public. They determine that in the initial place the profitability of a company would be bound to be positively correlated with the company listing because of the effect of listing requirements.

The benefits of listing at the securities exchange

Kimura and Amoro, 1999 stated that to be listed entails a certain level of expenditure in terms of time, money and effort on the part of the company but Companies are willing to incur this expenditure for a number of reasons: Raising funds for capital investments; the stock exchange provides a cheap source of funds for long-term investments. Listing on the Stock exchange enhances a company's prestige and public image. A widely held company may appear less foreign to the public. Its products may become more acceptable

as ‘our own. ‘The prestige and status gained by the firm as a result of the perception that business operations meet prudential requirements.

Costs of listing at the securities exchange

According to Pagano et al, 1998, despite the numerous advanced benefits of going public, three of the main potential deterrence for companies not to wish to go public are: Fixed costs which includes:-Initial direct costs such as underwriting fees, approval fees, listing fees, printing fees and advertising fees; Annual fees such as auditing, continuous listing fees and continuous dissemination of information; Need to under price the shares so as to attract investors.

Loss of confidentiality- Secrets for competitive advantage such as on-going research and marketing strategies are revealed to the whole world during an IPO and continuous disclosure after the listing.

Adverse selection- Companies may not wish to go public due to fear of adverse selection caused by the investors’ low knowledge of their existence which means that under pricing may need to be substantial to attract investors to the offer.

1.1.4 The Nairobi Securities Exchange.

Officially established in 1954, Nairobi Securities Exchange (NSE) in Kenya is one of the oldest stock markets in Africa. Having evolved from a voluntary association, recognition from the London Stock Exchange as an overseas stock exchange was central for its credibility. Uncertainty of the post-independence years, economic slump after the oil crisis and a 35% capital gains tax severely hampered the performance of the stock exchange. However, the NSE benefited from structural reforms in the 1980s and early

1990s as well as from internal capacity building. A major push, however, was the privatization of former state-owned enterprises that did not only increase the market value, but also improved public awareness about such investment instruments. This trend was supported by the removal of restrictions on foreign investments and the licensing of venture capital funds, dealing firms and other collective investment vehicles.

In the 1980s the Government of Kenya realized that for it to foster economic development there was the need to have an efficient and stable financial system. This required a reform package on a financial system to be designed and implemented. In 1991, the NSE was registered as a limited liability company with a full secretariat and phased out the “call-over” trading system in favor of the current “open outcry” system, (NSE Annual Hand Books, 1992-2003)

Table 1.1: Company listing and delisting trends for years 2002 - 2012

Period	No. of Listed Companies	New IPO listings	No. of delistings	No. Of suspended companies
2002	51	-	3	
2003	49	1	3	
2004	48	-	-	-
2005	48	-	1	2
2006	51	4	1	1
2007	54	2	-	
2008	55	2	1	1
2009	55	1(re-admission)	-	
2010	55	-	-	
2011	58	3(1 re-admission)	-	
2012	58	-	-	1

Source: CMA Annual Reports and NSE Hand Books.

Trend in listed companies at NSE

Before Kenya's independence in 1963, there were about 10 listed companies at the NSE.

The period after independence, particularly the 1970s saw about 20 more listed companies. This was the largest number of companies listed in a span of about a decade.

The 1980s recorded five new listed companies, a number which doubled in the 1990s. Since 2000; there have been about five new listed companies. In total, there are sixty-one (61) listed companies. Of these, thirty-eight (38) are listed on the Main Investment Market Segment (MIMS), nine (9) in the Alternative Investment Market Segment (AIMS) and four (4) in the Fixed Income Securities Market Segments (FISMS).

Of the companies currently listed, those listed before 1968 include, Marshalls (1954), Limuru Tea (1967), Kenya Oil (1959), Consolidated Holdings - now listed as Standard Group - (1954), City Brewery (1950) currently listed as City Trust, A. Baumann (1948), Sasini Tea and Coffee (1965), CMC Holdings (1950), and George Williamson (1951).

In 1968, Kenya Orchards, Kapchorua Tea, Kenya Power (formerly E.A Power), E.A. Portland, E.A Breweries, Car and General, Industrial Commercial and Development Corporation Investment Company (ICDC - set up by the Government of Kenya to promote the African owned business sector) were all listed. All of these companies except Kenya Orchards and Kapchorua Tea had the Government of Kenya as a shareholder. This implies that the government shareholding was either bought from the British government or from British investors who chose to leave after Kenya attained her independence in 1963.

About two-thirds of the current listed companies are categorized as local companies, with the majority of shareholders being residents of Kenya or companies incorporated in

Kenya under the Companies Act, while a third of the listed companies are categorized as foreign with the majority shareholders being companies incorporated and operating in a foreign country or with shareholders resident in a foreign country.

Section 22 of the Capital Markets (Securities) (Public Offers, Listing and Disclosures) Regulations, 2002 empowers the licensed securities exchange (NSE) to suspend and de-list listed securities subject to the approval of the Capital Markets Authority in the event a listed company fails to adhere to the continuous listing obligations particularly the regular and timely public disclosure of financial and other price sensitive information. In this regard, one company (Hutchings Biemer Ltd.) has been suspended from trading at the NSE due to non-compliance with the statutory obligation for continuous reporting. In addition, four companies and five fixed income securities have been de-listed for failure to meet the minimum listing requirements. The delisted companies include African Lakes Corporation and the East African Packaging Industries Limited. (CMA Annual Reports (2012)).

Table 1.2: Trend of Company listings and delistings on the NSE

Period	No. of Listed Companies	New IPO listings	No. of delistings
1954	46	-	-
1955 – 1959	55	13	4
1960 – 1969	63	19	11
1970 – 1979	57	5	11
1980 – 1989	57	3	3
1990 – 1999	56	4	5
2000 – 2009	55	10	12
2009– 2012	58	3	-

Source: CMA Annual reports (2001-2012), (Ngugi & Njiru, 2005).

1.2 Research Problem

The decision to go public is one of the most important and least studied questions in corporate finance (Pagano, Panetta and Zingales, 1998). Most corporate finance textbook authors e.g. Brealy and Myers as cited by Pagano *et al.* mainly discuss the institutional aspects of the decision, then following conventional wisdom that going public is simply a stage in the company's growth process. This alone cannot explain the observed pattern of listings in various countries. Even in developed capital markets like the United States, some large companies such as United Parcel Service or Bechtel- are not listed. Pagano *et al* (1998) found that going public is not a stage that all companies eventually reach but is a deliberate choice. This theory as Pagano et al. noted is insufficient since it does not clarify the reason why there are large privately held companies in the United States that were not listed. In considering the number of companies listed over the ten-year period as shown in Table 1.1 this theory holds true for the NSE, where there are also large privately-held companies that have not been publicly listed.

Various studies have been done on the decision to go public in relation to growth in the Nairobi Securities Exchange. Kimura and Amoro, Y (1999) explored the impediments to the growth of Nairobi Securities Exchange, a study by Ngugi & Njiru (2005), on the growth of the Nairobi Securities Exchange primary market exhibited a trend analysis of the stagnation in the development of the NSE with regard to the number of companies listed. Given that the NSE has a long history dating back 58 years from 1954 there is a question that arises with reference to the number of companies listed in comparison to the other relatively older stock exchanges of Egypt and South Africa. Kibuthu (2005) did a study on Capital Markets in Emerging Economies and found out that other stock markets

in Africa such as Mauritius that have come up in the last 20 years have recorded a higher number of companies listed in comparison to the NSE. Kiboi, T. W. (2012) in focusing on the development of the stock market based her study on the activity and presence of companies and did a cross-sectional analysis of the factors influencing company listings on the Nairobi Securities Exchange by using multiple regression analysis. Josiah, Jacinta and Erick (2013) sought to investigate the determinants of development in the Nairobi Stock Exchange by using secondary data for the period 2005-2009 to model the factors influencing the development of the NSE.

The NSE facilitates, among others, a principal activity in the financial system. It enables firms to gain access to long-term investable funds by issuing company shares and debt securities to the public. Currently at the NSE, only 61 companies are listed, to raise the additional capital firms opt to other sources of capital other than listing in the stock exchange. Since the securities exchange can enhance the development of the Kenyan economy by enabling those wishing to raise cheap and long-term capital to do so, why are companies not taking advantage of this to raise financial resources to expand their business? In this study discriminant analysis was used to analyze the data in the quest of establishing the determinants of the decision by companies to list at the Nairobi Securities Exchange. This study sought to answer the questions: What has hindered unlisted companies from listing on the NSE? What factors influenced the listed companies' listing decision?

1.3 Research Objective

The research objective of this study is to identify the factors that determine company's listing decision on the NSE.

1.4 Value of the Study

This study will be of importance to the following groups.

This study will be of importance to the Regulators. The Capital Markets Authority and the Nairobi Securities Exchange will find the study of greater importance since it is their business to facilitate the development of the capital markets hence the findings can be a basis of formulating policies to facilitate growth of the market as well as for regulatory purposes. They will also have a basis of conducting their investor education campaigns especially those that target at potential companies issuers of securities.

Corporate managers and directors, especially of unlisted companies who will be able to compare their reasons of not going public with those of competitors already listed in the NSE and decide as to whether listing could be the correct decision based on the potential incentives from being listed at the stock exchange. The study will afford 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 Advisers will be interested in this study since they will discover the reasons why companies may not wish to be listed hence can offer advisory services which will enable the companies make more prudent financing and investment decisions than before.

Individual Investors will be able to discover the reasons put forward by companies for not wanting to be listed hence decide which company’s securities should form part of their portfolios or not.

Academicians and scholars will find the study useful since it will add to the body of knowledge in the finance discipline and to those who may wish to conduct further research in this area. This study intends to contribute to literature on the NSE.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter reviews past studies the information from other researchers who have carried out their research in the same field of study. Specific emphasis has been put on the major issues influencing listing of firm in Stock market. The section provides a general overview of the existing theories on the decision to go public, empirical review and summary of the literature. Theories on the decision to go public can hardly be nested in a single model; a set of (not mutually exclusive) testable can derive predictions from them.

2.2 Theoretical Framework

2.2.1 Pecking Order Theory

Capital structure as discussed in this study as a determinant of companies going public can be explained by using the Pecking Order Theory.

Pecking Order Theory, states that capital structure is driven by firm's desire to finance new investments, first internally, then with low-risk debt, and finally if all fails, with equity. Therefore, the firms prefer internal financing to external financing (Myers and Majluf (1984). This theory is applicable for large firms as well as small firms. Since small firms are opaque and have important adverse selection problems that are explained by credit rationing; they bear high information costs (Psillaki, 1995). Since the quality of small firms financial statements vary, small firms usually have higher levels of asymmetric information. Even though investors may prefer audited financial statements, small firms may want to avoid these costs (Pettit and Singer (1985). Therefore, when

issuing new capital, those costs are very high, but for internal funds, costs can be considered as none. For debt, the costs are in an intermediate position between equity and internal funds. As a result, firms prefer first internal financing (retained earnings), then debt and they choose equity as a last resort (Pettit and Singer, 1985).

2.2.2 Agency Cost Theory

Agency cost theory focuses on the costs which are created due to conflicts of interest between shareholders, managers and debt holders (Jensen, 1976). For firms, agency conflicts between shareholders and lenders may be particularly severe (Ang, 1992). Firms which are not listed are likely to have more concentrated ownership and generally, the shareholders often run the firm which decreases the conflict of interest between shareholders and managers. Therefore, no or few agency problem will be existing. As a result of that the lower the agency problem, the less debt the small firms have in their capital structure A study on Ghanaian private firms shows that that short-term debt constitutes a relatively high proportion of total debt of Ghanaian privately owned firms. Second, the positive relationships between the debt ratios and both age, and size suggest that age and size of the firms are very important in influencing privately owned firms' access to debt finance. Newer and smaller firms are often discriminated against when applying for external debt finance (Joshua & Nicholas, 2009). These confirm to the life cycle theory. Thirdly, the significantly positive relationship between asset structure and long-term debt ratio denotes the fact that asset tangibility or collateral plays an important role in privately owned firms' access to long-term debt finance. Privately owned firms with lower portions of fixed assets in their total assets are likely to encounter difficulty

accessing long-term debt capital because of their inability to produce the required collateral.

2.2.3 Going public costs and benefits Models

Several theories of the decision to go public must describe the costs and benefits of public versus private ownership that confront private firms.

A recent and growing body of literature models a wide range of costs and benefits that influence the IPO decision. One of the earliest papers to examine this question is Zingales (1995). In Zingales' model, an original owner sells shares in a competitive market to dispersed shareholders, thereby capturing the surplus associated with an increase in the value of cash flow rights associated with a future change in control. The owner retains enough shares to retain voting control which subsequently allows the owner to extract some of the eventual buyer's private benefits. Thus, the IPO serves as a precursor to the firm being acquired.

Two papers that emphasize other informational effects on IPO decisions are Chemmanur and Fulghiere (1999) and Subrahmanyam and Titman (1999). A significant cost of public ownership in Chemmanur and Fulghiere's model arises from small investors' (duplicative) costs of learning about a firm, which the firm bears in the form of a lower offer price if it goes public. Their model predicts that a firm goes public when information gathering costs are low or when enough information about the firm has accumulated in the public domain (e.g., as the firm ages). Subrahmanyam and Titman also investigate how information gathering by dispersed investors influences the IPO decision. Their model allows investors to acquire information about the firm that insiders

lack and this information improves the firm's investment decisions. When insiders can uncover this "serendipitous information" at low cost, firms go public otherwise they remain private.

Boot, Gopalan, and Thakor (2005) envision entrepreneurs trading off the benefits of greater "elbow room" when running a private firm against the higher cost of capital associated with greater managerial autonomy. Most of the empirical predictions of this model are tied to variations in the restrictiveness of corporate governance regimes (making this a good model to test with international data) or to a parameter ρ , a measure of agreement between the entrepreneur and investors about whether a particular investment should or should not be undertaken. Lacking a good empirical proxy for ρ which we could apply to a cross section of banks, we fail to provide any evidence to support or refute this model. Similarly, because banks must disclose a great deal of information whether or not they go public, the banking industry seems an unlikely fit for the model of Yosha (1995), which envisions a small, innovative private firm facing a cost of going public in the form of an existing competitor who learns from IPO-related disclosures.

Pastor and Veronesi (2005) model the optimal IPO timing decisions of private firms. Firms in their model decide when to exercise a real option to go public, invest proceeds, and begin production. The value of this option rises when expected market returns fall, when aggregate profitability is high, and when uncertainty about future aggregate profitability rises. Among the predictions of their model are that IPO waves caused by declining expected market returns are preceded by high market returns (which are not a function of mispricing, but rather depend on falling expected returns), and similarly, IPO

waves driven by increased aggregate profitability follow periods of high market returns. During our sample period, banking went through some very strong and very weak periods of profitability, making it a good industry to test theories of IPO timing based on option value.

2.3 Empirical Review

Josiah, Jacinta and Erick (2013) sought to investigate the determinants of development in the Nairobi Stock Exchange. Secondary data for the period 2005-2009 was used to model the factors influencing the development of the NSE. The regression results found that, macro-economic factors such as stock market liquidity, institutional quality, income per capita, domestic savings and bank development are important determinants of stock market development in the Nairobi Stock Exchange. The regression analysis reported no relationship between stock market development and macroeconomic stability - inflation and private capital flows. The results also showed that Institutional quality represented by law and order and bureaucratic quality, democratic accountability and corruption index are important determinants of stock market development because they enhance the viability of external finance. This result suggests that the resolution of political risk can be an important factor in the development of the Nairobi Stock Exchange.

Kiboi (2012) also in focusing on the development of the stock market and considered the specific factors influencing company listings on the Nairobi Securities Exchange, by using descriptive statistics to describe the empirical data, inferential statistics and multiple regression analyses for analysis. The researcher used non listed companies to determine what has hindered their being listed as well as what would motivate them to

consider listing on the stock market with regard to the benefits that accrue to listing. Data was collected using questionnaires for the non-listed companies. The political environment which was characterised by a change in political regime was identified as a major factor. The effect cited by the respondents was the (de) regulation of the industries in which the companies were operating in thus making expansion possible and consequently use of the capital market to raise funds. She also identified Legal and regulatory framework as a factor; the respondents expressed the view that these were too stringent. The other relatively more influential factor was the political environment which was also highly considered by the respondents. Other issues identified were company or organization structure, public scrutiny, dilution of ownership and a lack of necessity to raise long term funds. Ironically, the most motivating benefit was access to a wide capital base, drawing the conclusion that when a company is in need of heavy capital financing they would highly consider use of the capital market. Despite these benefits the study found that there is a need to lower listing and maintenance costs and for the NSE to broaden the scope of their products.

Chepng'ar, R. K. (2006) did a survey to establish the factors that account for the dismal number of additional listings at the Nairobi Stock Exchange (NSE) over the last fifty years of its existence, the researcher utilized primary data collected from a sample of 25 out of 60 targeted non-listed companies. The analysis procedure involved the tabulation of the responses such as the factors considered by the sampled companies to be impediments to list at the NSE as well as suggested solutions to this phenomenon. The respondents indicated that stringent and numerous entry requirements are the main

obstacles for private companies not to seek listing at the NSE. The other obstacles include the profitable track record, stringent and numerous continuous listing requirements as well as the quantity and quality of disclosures. These findings agree with those of Mbui Wagacha (2000) wherein the regulatory framework was rated good by 44.4% of the respondents while a cumulative 56.6% regarded it as very poor to fair. Also Ngugi and Njiru (2005) noted that a good regulatory system creates an enabling environment for facilitate listing. This means that efforts of boosting listings in the stock exchange should address these areas of concern as well as enhancing- creation of public awareness and education as to the existence and usefulness of the capital markets to the public and the economy as a whole. Ngugi and Njiru (2005) recommended that mass education on the stock market operations is important to the business community.

The only published study with a broad sample of public and private firms is Pagano, Panetta, and Zingales (1998; henceforth PPZ). Tracking a sample of almost 20,000 private Italian firms from 1982-1992, they find that the most important driver of the IPO decision is the market-to-book ratio of existing public firms in an industry. Private firms in a particular industry go public when public valuations in that industry are high. High market-to-book ratios can indicate an increase in growth opportunities, or they might simply reflect temporarily high valuations. Supporting the latter view, Italian IPO firms go public after a period of rapid growth and high investment, but not before such a period. Not surprisingly, firm size is the second most important factor in determining which Italian firms go public, with larger firms being more likely to conduct an IPO. PPZ also find evidence that Italian IPOs lead to subsequent control changes. Because

institutional features of markets as well as the relative importance of the stock market to the overall economy differ considerably between Italy and the United States, it is not clear whether the results from PPZ extend to the US. For example, the typical IPO firm in Italy is eight times as large and six times as old as the average IPO in the United States, despite no compelling evidence that listing costs are significantly higher in Italy.

Two working papers examine IPO decisions using German data. Fischer (2000) examines a sample of private German firms, some of which ultimately listed on the shortlived *Neuer Market*. The data on private firms used in this study come from *Hoppenstedt*, a German financial data provider. Fischer does not specify exactly how *Hoppenstedt* gains access to private firm data, but he does acknowledge a very large size bias in their figures. The control group of private firms is, on average, seven times larger than the IPO group. In addition, firms in this sample use a mix of accounting standards, with the private companies using the German Company Code and the IPO firms using a mix of that as well as IAS and GAAP. Factors that appear to prompt private firms to go public in this study are high capital expenditures, high intangible assets, and growth in sales. Fischer finds that the holdings of corporate insiders, relative to the holdings of other block holders prior to the IPO, actually increases after the IPO, and he finds no evidence that IPO firms are more likely to be acquired than private firms.⁹ Thus, he concludes that the IPO is not a mechanism that facilitates a later sale.

Boehmer and Ljungqvist (2004) study a sample of private German firms that announced an intention to go public between 1984 and 1995. They use a hazard model to measure the effects of various factors on IPO timing, conditional on the announcement of intent.

Increasing the likelihood of an IPO are increases in profitability, sales, earnings growth, or stock market returns. Family-run companies are less likely to complete IPOs. Comparing their sample firms to a broad sample of public and private German firms covered by Worldscope, Boehmer and Ljungqvist find that firms announcing their intent to do an IPO grow faster than other firms both before and after the announcement, though growth does slow a little after the announcement. The median age of IPO firms in their sample is 38 years, a little more than 5 times the age of IPO firms in the US. As with PPZ, it is unclear how these results would transfer to the very different market environment in the US. In addition, because Boehmer and Ljungqvist lack data on private firms that did not announce their intent to go public, they cannot address why some private firms make these announcements while others do not. Boehmer and Ljungqvist exploit their time series to determine which factors raise or lower the likelihood of completing an IPO conditional upon an initial announcement, but the thrust of our paper is on the more primitive initial decision.

2.4 Summary of the Literature

The literature review suggests there are abundant works on the reasons and factors that influences companies to go public. Different researchers and scholars have used different mechanisms of data collection and analysis methods in addition to different periods and places of study. The main factors identified are: the corporate financing decisions, profitability, size and age of the company. In the wake of development finance as a means for poverty alleviation (Hearn & Piesse, 2006), there has been a shift in academic focus to concentrate on global stock market development trends. Particular importance has been given to the contribution of a market-based economy over a bank-based

economy especially for developing economies in meeting the poverty alleviation millennium development goals. Kenya, on its path to achieving economic development has increased focus on the NSE from which the question of the determinants of company listing decision has arisen. The NSE facilitates, among others, a principal activity in the financial system. It enables firms to gain access to long-term investable funds by issuing company shares and debt securities to the public. Currently at the NSE, only 61 companies are listed, to raise the additional capital firms opt to other sources of capital other than listing in the stock exchange. This study will use data from both listed and non-listed firms to find out the determinants of the listing decision by companies in Kenya.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Research design

This study addressed both quantitative and qualitative issues, thus descriptive approach was used in collecting data from the respondents. Saunders, Lewis and Thornhill (2000), argues that descriptive research portrays an accurate profile of persons, events, or account of the characteristics, for example behaviour, opinions, abilities, beliefs, and knowledge of a particular individual, situation or group. The descriptive method was preferred because it ensures complete description of the situation, making sure that there is minimum bias in the collection of data (Cooper and Schindler, 2003).

3.2 Population

Target population refers to the entire group of individuals or objects from which the study seeks to generalize its findings (Cooper and Schindler, 2008). The target population in this study was selected based on company size as required by the NSE listing requirements where a company must have an asset base of one hundred million shillings. The population selected therefore was comprised large private companies as well as those listed on the NSE.

3.3 Sample design

The sample drawn for this study was determined by data availability from the respective regulatory authorities' i.e NSE, CBK, CMA and company prospectus. In this regard, non-probability sampling was used to select those companies to be included in the sample. Twenty companies have been sampled as indicated in Appendix 3 from the population constituting two groups: ten listed companies and a matched sample of ten non-listed

companies. Since a matched sample is required, stratified sampling was done based on the industry segmentation of the companies. For the listed group, ten companies that listed in the period between 2002 and 2012 was selected and used for the study.

3.4 Data Description and Collection Method

Primary data was collected to gather qualitative information from the target respondents outlining issues relevant to the study. This was achieved by use of self-administered questionnaires attached as appendix one. The detailed Questionnaires are constructed using likert item and open – ended and questions. Questions contained in the questionnaire are in different sections to simplify the work of the respondents as well as for classification purposes.

The questionnaires were self-administered to the senior managers of the companies in charge of corporate strategy using face to face interviews. The target respondents were the strategy managers in the Chief Executive Offices, Chief Finance Officers and Executive Directors of the companies. This cluster of respondents would in all cases be familiar with the companies' growth and compliance strategies. To supplement the questionnaires, secondary data was collected from policy documents and strategy plans was collected through desk research.

3.5 Data analysis Procedure

The study used quantitative techniques in analysing the data. After receiving questionnaires from the respondents, the responses was edited, classified, coded and tabulated to analyze quantitative data using Statistical Package for Social Science (SPSS version 17). Tables were used for further representation of the data for easy

understanding and analysis. The data was then be summarized, coded and tabulated. Inferential statistics Logit regression and Discriminant analysis was used to determine which variable(s) are the best predictors of companies' decisions to list at the NSE.

3.5.1 Model Specifications

Based on the literature review above, the relationship between variables can be written in the form of a function as follows:

$$\text{Equity Listing}_{it} (EL_{it})=f (X_1, X_2, X_3, X_4, X_5, X_6, X_7, X_8, X_9, X_{10}, X_{11}, X_{12}, X_{13})$$

Where;

EL_{it} : Variable equal to 0 when company i does not go public for a period t and Equal to 1 when it goes public.

X_1 : Stock Market Liquidity measured by the turnover ratio

X_2 : Stock Market Volatility measured by the movement of the 20-share index

X_3 : Legal and Regulatory Framework determined based on the listing requirements

X_4 : Political Environment determined by the World Bank classification of country risks

X_5 : Company size

X_6 : Company growth

X_7 : Return on Assets

X_8 : Age of the company

Control Variables (CV)

X_9 : Industry

X_{10} : Stock market automation

X_{11} : Availability of incentives when listed

X_{12} : Costs of listing

X_{13} : Benefits of listing

The resultant equation is as follows:

$$EL_{it} = a + b_1 * X_1 + b_2 * X_2 + b_3 * X_3 + b_4 * X_4 + b_5 * X_5 + b_6 * X_6 + b_7 * X_7 + b_8 * X_8 + b_9 * X_9 + b_{10} * X_{10} + b_{11} * X_{11} + b_{12} * X_{12} + b_{13} * X_{13}$$

Where;

EL_{it} = Discriminate function

b_1 through b_{13} = the discriminant coefficient or weight for that variable

X_1 through X_{13} = respondent's score for that variable

a = is a constant

The study used Discriminant analysis model to establish factors determining listing decision by companies at the NSE. Discriminant analysis is also called Fisher linear discriminant analysis after Fisher, 1936. The model in this study is a two-group case discriminant function; the two groups in the analysis were the listed and the not listed companies. This study applied this methodology to investigate the factors determining the Listing Decision by companies in Kenya with panel data of companies for 2002-2012.

The review of literature provides the basis for examining potential listing determinants which are Stock Market Liquidity, Stock Market Volatility, Legal and Regulatory Framework, Political Environment, company Size, Age (Length of Time), Leverage (Capital Structure), companies' growth opportunities, companies' profitability, benefits and costs of listing.

Stock Market Liquidity is measured using value traded which is the total value of shares traded/GDP or the turnover ratio which is the volume of shares traded/market capitalization.

Stock Market Volatility is measured using either the annualized returns on stock prices of individual stocks or the movement of the share index used as a representative of the market.

Company size is logged total assets, which is frequently the proxy adopted by researchers for Doidge et al., (2009) and use the absolute measure of size. The study used company size by considering differences between a company's individual market capitalization and the total market capitalization of its market using four proxies that is total assets, number of employees, market value of common stock, and total revenues as used by Pagano *et al.* (2002).

To measure company growth opportunities, a market-to-book ratio was adopted. For this study, the market-to-book ratio is a calculation of dividing market capitalization of a company at the end of each year by book value of common shares.

In measuring leverage, prior research used a ratio that divided total debt by total assets as indicated by Doidge et al., (2009). This study used a debt-to-total assets ratio as a proxy for company leverage.

The profitability of the company was measured using Return on assets (ROA) which is a commonly chosen proxy to measure company profitability as used by Pagano et al., (2002).

Length of time in Operation- (Age) .The review of studies such as Capasso (2006) and Yartey (2008) agree that the length of time that a company has been in existence would have a significant influence on the decision of a company to go public or not. To measure the age of the company, two different formulae will be required for the two groups:

For the listed companies length of time (Age) was determined by considering the natural logarithm of year of listing. For the non-listed group age was determined by the total number of years that the company has been in existence since establishment.

For Legal and Regulatory Framework; from review of literature there are main aspects that constitute the determinant policies for the legal and regulatory framework of the stock market; the disclosure requirements, listing requirements and the trading practices of the market (Yartey, 2008). A well-defined legal and regulatory framework provides for a better functioning stock market as it enhances functional efficiency. Since these three aspects are correlated and move in the same direction, this study was considered the listing requirements as the measure for the legal and regulatory framework of the NSE to check how it affects the number of companies listed. A listing requirements schedule (appendix 2) has been created based on the listing requirements given by the legislative Capital Markets Act which are in line with the WFE standards.

3.6 Validity and reliability

Validity is the degree to which results obtained from the analysis of the data actually represent the phenomena under study (Mugenda, 2003). To enhance content validity, the researcher's supervisor was requested to appraise the instruments. External validity which is the representation of the sample with regard to the target population was done on pilot study in five companies and five financial managers were used in the pilot study.

Reliability is used to focus on the degree to which empirical indicators or measures are consistent across two or more attempts (Mugenda and Mugenda, 2003). The researcher used the test-retest method whereby questionnaires were administered twice to the same

group of financial managers. A time lapse of one week was allowed before the questionnaires are administered again. A comparison between the two sets was made using Pearson's correlation co-efficient to determine the reliability of the questionnaires.

CHAPTER FOUR

DATA ANALYSIS AND INTERPRETATION OF FINDINGS

4.1 Introduction

This chapter presents the findings and interpretations of the study. The study sought to determine factor influencing company listing at NSE.

4.2 Back ground of the companies

Table 4.1 Length of operation since Establishment

	Frequency	Percentages
5 – 15 years	2	10
16 – 25 years	9	45
26 – 35 years	6	30
Over 35 years	3	15
Total	20	100

Source: Author (2013)

The study sought the length of time the company has been in operation since establishment. From the findings, most 45% respondents indicated that their companies has been in operation for 16 to 25 years since establishment, 30% of the respondents indicated that the companies had been in operation since establishment for 26 to 35 years, 15% of the respondents indicated that the companies had been in operation since establishment for over 35 years while 10% of the company has been in operation for 5-15 years since establishment. This clearly indicated that majority of the companies had been in operation for more than 15 years since establishment.

4.3 Size of the company with reference to asset base

Table 4. 2: Company size

	Frequency	Percent
Below 10 billion	4	20
11 – 60 billion	6	30
61 – 110 billion	5	25
111-210 billion	3	15
211billion and above	2	10
Total	20	100

Source: Author (2013)

The respondents were requested to indicate the size of the company in references to the company asset base. From the findings, 30% of the respondents indicated that their company size in assets based was between 11-60 billion, 25% indicated that their company's size ranged between 61-110 billion while 20% indicated that their company size in asset based was below 10billion. The study further found that 15% of the respondents indicated that their company size in asset base was 110-210 billion while 10% of the respondents indicated their companies size was between 211 billion and above.

4.4 Factors influencing Company Listing Decisions; the listed companies

Table 4. 3: Extent to which the factors influenced company’s listing decision.

Statement	Mean	St dev
Stock market listing regulations requirements	4.77	0.56
Stock market listing requirements	4.86	0.59
Liquidity	4.63	0.69
Disclosure	3.67	0.54
Length of time in Operations	4.45	0.37
Market Volatility	4.61	0.45
Leverage of the company	4.55	0.46
Profitability of the company	4.51	0.43
Trading practices	4.47	0.41
The Company Size	4.16	0.73

The study sought the extent to which the given factor influenced company listing decisions. From the findings, stock market listing requirements, stock market listing regulations requirements, liquidity, and market volatility, leverage of the company and Profitability of the company were factor that influences the companies listing decisions to a very great extent as indicated by a mean of 4.86, 4.77, 4.63, 4.61, 4.55 and 4.51 respectively. The study also found that trading practices, length of time in Operations, the Company Size and disclosure were factor that greatly Influence Company’s listing decisions to a great extent as indicated by a mean of 4.47, 4.45, 4.16 and 3.67 respectively. This clearly implied that stock market listing requirements, stock market listing regulations requirements, liquidity, and market volatility, leverage of the company

and profitability of the company were factor that influences the companies listing decisions to a very great extent. Perotti & Laeven (2002) established that stock markets responded best to sustained reform policies through which they create a process of gradual confidence building. This process induces investors to invest progressively more and thus increase market integration through liberalization of capital flows.

4.5. Analysis of the importance of company listing in Stock market to the listed companies

Table 4. 4: Rating how importance of company listing is viewed to influence company listing decisions.

Statement	Me an	Std devi atio
Growing and high return expectation of the firm	4.73	0.55
To raise cheap funds	4.59	0.44
Earning high profits	4.84	0.79
Rebalance firm accounts after a period of high investment and growth	4.57	0.61
Evaluating management efficiency of the company	4.82	0.68
Growth opportunities	4.80	0.89

The respondents were requested to rate the importance of the factor influencing company listing decisions. From the findings, Earning high profits, Evaluating management efficiency of the company, Growth opportunities, Growing and high return expectation of the firm were rated as very important factors influencing company listing decisions as indicated by a by a mean of 4.84,4.82, 4.80 and 4.73. The study also found that rising of cheap funds rebalances firm accounts after a period of high investment and growth were

factor rate as very important in influencing company listing decision as indicated by a mean of 4.59 and 4.57 respectively.

4.6 Findings of the rationale of Stock market by listed companies

Table 4. 5: Rating the importance of the rationale for stock market

Importance of rationale	Me an	Std dvt
Enables company to acquire or dispose of securities at prices a fair and equitable	4.66	0.54
Company's financial securities can be traded on the stock exchange of greater latitude	3.67	0.48
Stock exchanges facilitate the trade in financial securities specifically equities, debt instruments and mixtures	4.38	0.12
Increase in the financial market size	4.78	.59
Improve firm ability of financing needs in terms of sustainability and efficiency in the large scale and long-term projects	4.57	.73

The respondents were requested to rate the importance of the rationale of the stock market. From the findings, majority of the respondents rated increase in the financial market size, enabling company to acquire or dispose of securities at prices a fair and equitable and Improve firm ability of financing needs in terms of sustainability and efficiency in the large scale and long-term projects as very importance rationale for stock market as indicated by a mean of 4.78, 4.66 and 4.58 respectively. The study also found that Stock exchanges facilitate the trade in financial securities specifically equities, debt instruments and mixtures and Company's financial securities can be traded on the stock exchange of greater latitude were rated as importance rationale for stock market as indicated by a mean of 4.38 and 3.67 respectively. This implied that rated increase in the financial market size, enabling company to acquire or dispose of securities at prices a fair

and equitable and Improve firm ability of financing needs in terms of sustainability and efficiency in the large scale and long-term projects, raising funds for capital investments where the stock exchange provides a cheap source of funds for long-term investments were benefits that could accrued to company going public. According to Sejjaaka (2011) Stock markets provide firms with capacity to explore multiple investment ventures by increasing their potential liquidity.

4.7 Analysis of influence of company specific factors on listed companies to go public

Table 4.6: Ratings of Company specific factors in influencing the decision of a company to go public.

Statement	Mean	Std. Deviation
The stock market valuation of other companies in the same sector	4.32	.96
Financial capability of the company	4.61	.47
The company's size	4.53	.57
Inflation rate in the country	4.02	.88
Regulations in the financial sector	4.68	.78
Political risks	3.78	.62
Taxation rates	4.57	.43
Private capital Flow	4.41	.52
Competition in the financial market	4.20	.75
Legal requirement	4.56	.63
Use of raised funds.	4.71	0.51

The study requested the respondents to rate how the market determinant influence decision of the company to go public. From the findings, majority of the respondents rated use of raised funds, Regulations in the financial sector, Financial capability of the company Taxation rates and Legal requirement very critical market determinants influencing company going public as indicated by a mean of 4.71, 4.68, 4.61, 4.57 and 4.56 respectively. The study also found that respondents rated Private capital Flow, the stock market valuation of other companies in the same sector, Competition in the financial market, inflation rate in the country and political risks as important market determinants influencing companies as indicated by a mean of 4.41, 4.32, and 4.02

4.8 Analysis of benefits of going public as a determinant of the decision to go public by listed companies.

Table 4. 7: Rating the importance of the benefits of a company going public

Importance	Mean	Std dvt
Raising funds for capital investments	4.86	0.87
Gaining of greater latitude in raising cash from her financial asset portfolio	4.45	0.37
Increase potential for earning a return on savings.	4.73	0.69
To attain tax incentives	4. 12	0.37
Increase public ownership of the company	4.40	0.39
Improve Capacity to explore multiple investment ventures through increasing company potential liquidity.	4.67	0.68

The respondents were requested to rate the importance of the benefits of the company going public. From the findings, majority of the respondents rated raising funds for capital investments, increase potential for earning a return on savings, improve Capacity

to explore multiple investment ventures through increasing company potential liquidity as very importance benefits influencing company going public as indicated by a mean of 4.86, 4.73, and 4.67. The respondents also rated Gaining of greater latitude in raising cash from her financial asset portfolio, Increase public ownership of the company and to attain tax incentives as importance benefit influencing company going public as indicated by a mean of 4.45, 4.40 and 4.12 respectively.

4.9 Analysis of market specific factors among listed companies.

Table 4. 8: Market specific factors that influence companies go public

Market factors	Mean	Std dvt
systematic risk faced by companies	4.62	0.75
Regulatory and Legal Framework	4.81	0.35
Competition in the financial market	4.53	0.61
Political environment	4.41	0.66
Stock Market Liquidity	4.70	0.74

The study sought the extent to which the market specific factor influencing companies going public. From the finding, majority of the respondents strongly agreed that Regulatory and Legal Framework, Stock Market Liquidity, systematic risk faced by companies and Competition in the financial market influence company going public as indicated by a mean of 4.81, 4.70, 4.62 and 4.53 respectively. The study also found that respondents agreed to a great extent that political environment influence company going public as indicated by a mean of 4.41 with a standard deviation of 0.66.

4.10 Analysis of influence of company specific factors on the decision of non-listed companies to go public

Table 4. 9: Rating of company specific factors influence on non-listed companies

Company Factors	Mean	St dev
The mix of debt and equity a company maintains	4.63	0.53
Company Size by assets base	4.71	0.57
length of time of the company in the market	3.38	0.33
Profitability of a company	4.86	0.77
Initial direct costs	4.33	0.49
Loss of confidentiality-	3.50	0.87
Taxation policies	4.71	0.67

The study sought the extent to which company specific factors influenced companies' decision to go public. From the findings, profitability of a company, Company Size by assets base, the mix of debt and equity a company maintains and taxation policies influence the company going public to a very great extent as indicated by a mean of 4.86, 4.71, 4.63 and 4.71. The findings also indicated that loss of confidentiality, length of time of the company in the market influence the company going public to a great extent as indicated by a mean of 3.50 and 3.38 respectively.

4.11 Analysis of influence of Market factors on the decision of non-listed companies to go public

Table 4. 10: Market factors which considered influencing company not being listed at NSE

Market Factors	Mean	Std deviat
Market Liquidity	4. 79	0.83
Volatility of market prices	4.65	0.75
Company Valuation in the economic sector	4.52	0.87
Disclosure requirement	4.51	0.88
Listing requirements	4. 71	0. 95
Compliance with IFRS	3.88	0.29
Fair Trading requirements	4.18	0.36
Taxation policies	4.33	0.82

The study sought the extent to which market factors were considered influencing non listed companies not listing at NSE. Majority of the respondents rated market liquidity, listing requirements, volatility of market prices, company valuation in the economic sector and disclosure requirement, as a market factors affecting company not listing NSE as indicated by a mean of, 4.79, 4.71, 4.65, 4.52, and 4.51 with a standard deviation of 0.83, 0.88, 0.95, 0.87 and 0.88 respectively. The study also found that taxation policies, Fair Trading requirements and compliance with IFRS was rated as factor influencing companies not to list at NSE as indicated by a mean of 4.33,4.18 and 3,88 with a standard deviation of 0.82,0.36 and 0.29 respectively.

4.12 Analysis of benefits of going public as a determinant of the decision to go public by non-listed companies.

Table 4. 11: Rate the benefits that would influence your company listing decision

Benefits influencing listing decisions	Mean	Std deviation
Enables company to acquire or dispose of securities at prices a fair and equitable	4.53	0.55
Access to a wide capital base	3.99	0.34
Diversity in range of investors	4.67	0.63
Enhance research and development	4.03	0.41
Company's financial securities can be traded on the stock exchange of greater latitude	4.61	0.53
Stock exchanges facilitate the trade in financial securities specifically equities, debt instruments and mixtures	4.64	0.74
Increase in the financial market size	4.73	0.69
Valuation purposes	4.13	0.71

On rating the benefits that would influence non listed companies listing decisions, majority of the respondents rated increase in the financial market size, diversity in range of investors , Stock exchanges facilitate the trade in financial securities specifically equities, debt instruments and mixtures and Company's financial securities can be traded on the stock exchange of greater latitude as very important as indicated by a mean of 4.73, 4.67, 4.64 and 4.61 with a standard deviation of, 0.69, 0.63, 0.74 and 0.53 respectively. The respondents also rated valuation purposes, enhance research and development and Access to a wide capital base as important benefits that could influence

companies listing decisions 4.13, 4.03 and 3.99 with a standard deviation of, 0.71, 0.41 and 0.34.

4.13 Initiatives by the NSE that would influence Non Listed Company to publicly list on the stock exchange

Table 4. 12: Initiatives by the NSE that would influence Non Listed company too publicly

Initiatives by NSE	Mean	Std dvt
Improved market efficiency to lower cost of raising capital	4.72	0.25
Dynamic product development	4.02	0.23
Demutualization of the exchange	4.56	0.41
Re-classification of listed securities	4.50	1.68

The respondents were requested to indicate the extent the given initiative by the NSE would influence the non-listed companied to publicly list on the stock exchange. From the findings, majority of the respondents indicated that improved market efficiency to lower cost of raising capital, demutualization of the exchange, Re-classification of listed securities would influence companies listing in Stock exchange to a very great extent as indicated by a mean of 4.72, 4.56 and 4.50 with a standard deviation of 0.25, 0.41 and 1.68 respectively. Most respondents indicated that dynamic product development would influence companies listing at stock exchange as indicated by a mean of 4.02.with a standard deviation.

4.14 Regression Coefficients

Table 4. 13: Coefficients

Model		Unstandardized Coefficients		t-Statistics	P-Value	VIF
		B	Std. Error			
1	(Constant)	14.132	3.700	3.58	0.002	0.01
	Stock Market Liquidity	25.91	11.84	2.78	0.011	3.7
	Stock Market Volatility	11.2195	0.316	67.03	0.013	2.4
	Political Environment	3.231	2.5092	1.64	0.004	5.7
	Company size	0.0256	0.7840 -	0.03	0.974	1.8
	Company growth	34.214	3.000	1.095	0.001	1.3
	Return on Assets	5.771	.710	0.692	0.002	0.06
	Age of the company	-0.0127	0.721	3.38	0.613	3.8
Model Summary					R	
1					.087(a)	
R-Sq					74.6%	
R-Sq (adj) =					71.8%	
Durbin-Watson statistic =					2.16431	

*Values at 95% confidence level

Table 4. 14: Analysis of Variance

Model		Sum of Squares	Df	MS	F-ratio	P-Value
1	Regression	24.104	8	.227	5.231	0.01(a)
	Residual	39.762	12	.021		
	Total	63.866	20			

Source: Survey data (2002 -2012)

The model summary measure of goodness of fit of the regression equation taken is the adjusted R² which shows the proportion of variation of the response variable explained

by the regression equation. From the results obtained, the adjusted R² is 71.6% which means that the proportion of the response variable explained by the variables combined in the regression equation is 71.6%, for example equity listings can be explained by the market specific up to 71.6%.

In other words these results mean that the combined set of market and company specific factors tested in this study explain 0.716 of equity listings on the NSE. In order to make statistical inference of the regression equation, an analysis of variance was performed and at a confidence level of 95% the sum of squares deviations about the mean explained by the regression (SSR) is 63.866 whereas the sum of square unexplained by the regression represented by the error (SSE) is 20. Therefore the part explained by the regression is greater than that which is not explained giving the regression equation explanatory power.

This means that the market factors tested have a strong explanatory value for the response variable (equity listings) giving the regression equation a strong explanatory power ($p = 0.000$; $F = 5.231$). The Durbin-Watson statistic provides further information on the presence of first order autocorrelation between the variables being tested.

From the logit regression analysis, a positive relationship was established between stock market development and liquidity. This is given by the positive sign of the coefficient ($\beta = 25.91$) with P Value > 0.05 at 0.011 which is a strong positive, that is it provides strong evidence ($0.01 < p < 0.05$) that SML is an influential factor for stock market development.

From the regression analysis, a positive relationship was established between stock market development and market volatility. However, the coefficient value is fairly small ($\beta = 11.2195$) meaning that a unit change in equity listings would be influenced by a change in volatility. The test of significance p-value result, $p = 0.013$, provides strong evidence ($0.013 < p < 0.05$) that market volatility is a factor influencing stock market development. The findings concurred with Demirguc-Kunt & Levine (1996) who found that the volatility of stock returns affected the return on investment and growth by disturbing the average portfolio risk hence influence Company listing in stock market.

On the Political Environment (PE), there was a positive relationship was established between stock market development and the political environment ($\beta = 3.231$). The test of significance provides overwhelming evidence ($p < 0.05$) that the political environment influences stock market development at $p = 0.004$. This is the strongest value obtained from the regression meaning that the political environment is the most significant factor influencing stock market development. Results from the non-listed group also provided evidence that political environment was the highest ranked factor as influencing non-listing and consequently listing decision. The findings clearly indicated that a change in the political regime has on financial market development. According to Yartey and Adjasi (2007) political environment described in terms of political risk and law and order, democratic accountability and bureaucratic quality influence company listing in stock market to a great extent.

The study also found that a unit increase in company size has no change in company liquidity as ($\beta = 0.0256$). The test of significance provides no evidence ($p > 0.05$) that the

company influences stock market development at $p = 0.00974$. This implied that company size has no significance impact on influencing listing decision.

From the regression analysis, a positive relationship was established between stock market development and company growth. The coefficient value is provided a strong evidence ($\beta = 34.214$) meaning that a unit change in equity listings would be influenced by a change in volatility. The test of significance p-value result, $p = 0.001$, provides strong evidence ($0.001 < p < 0.05$) that company growth was a factor influencing listing decisions in NSE.

From the regression analysis, a positive relationship was established between stock market development and return on asset. The coefficient value is provided a strong evidence ($\beta = 5.771$) meaning that a unit change in return on assets would be influenced by a change stock development. The test of significance p-value result, $p = 0.001$, provides strong evidence ($0.001 < p < 0.05$) that company return on a was a factor influencing listing decisions in NSE. This clearly indicated that companies go public seeking to earn more returns on assets. According to Pagano, Panetta & Zingales (1998) the profitability of a company influence company going public where profitability of a company would be bound to be positively correlated with the company listing because of the effect of listing requirements.

The study finally established that a unit increase in period of company in operation in the market has small change in stock development with a factor ($\beta -0.0127$). The finding was not significant as $P > 0.05$ at 0.613. This clearly indicated that the company period of operation in the market cannot form a base for company listing decision. The study

contradict Pagano *et al.* (1998) who found a positive relationship for their hypothesis that the longer the company has been in existence the more likely it would be to publicly list.

4.15 Discriminant Analysis

Table 4. 15: Discriminant Analysis, Group Statistics

		Mean	Standard Dev	Unweigh ted	weighte d
Listed in NSE	Stock Market Liquidity	38.7665	9.23647	20	20 .000
	Stock Market Volatility	46.6148	11.16826	20	20 .000
	Political Environment	19.6848	5.23565	20	20 .000
	Company size	24.816	5.39643	20	20 .000
	Company growth	31.491	4.497	20	20 .000
	Return on Assets	23.548	5.219	20	20 .000
	Age of the company	12.729	5.120	20	20 .000
Not Listed in NSE	Stock Market Liquidity	36.1934	8.52325	20	20 .000
	Stock Market Volatility	38.2818	6.54159	20	20 .000
	Political Environment	26.5028	7.25153	20	20 .000
	Company size	8.3481	7.53107	20	20 .000
	Company growth	26.049	3.15670	20	20 .000
	Return on Assets	27.7032	9.02823	20	20 .000
	Age of the company	19.0388	13.12921	20	20 .000
Total	Share Market Liquidity	37.800	6.183	20	20.000
	Share Market Volatility	42.448	7.816	20	20.000

	Political Environment	22.0922	7.691	20	20.000
	Company size	21.582	5.808	20	20.000
	Company growth	26.066	7.926	20	20.000
	Return on Assets	27.476	6.183	20	20.000
	Age of the company	15.890	8.903	20	20.000

To check whether there were any significant differences between the two groups those that had listed and those that had not listed in the dependent variable on each of the independent variables the data provided by discriminant analysis, ‘Group Statistics’ (Table 4.16) and ‘Equality of Group Means’ (Table 4.17) were examined.

In Table 4.16, it can be observed that the mean difference between the various biases in the two groups were significantly different. Two exceptions however were company growth and return on assets where the means were nearly identical and the standard deviations comparable. The other variables, however, pointed in the direction that the chosen discriminator was indeed a good one.

Table 4.16: Discriminant Analysis: Equality of Group Means Tests

	Wilks Lambda	F	df1	df2	Sig.	canonical correlation
Stock Market Liquidity	0.997	3.304	1	40	0.0001	-0.618
Stock Market Volatility	0.987	1.176	1	40	0.0012	-0.568
Political Environment	1.000	2.013	1	40	0.0031	-0.540
Company size	0.851	15.222	1	40	0.879	0.607
Company growth	3.962	0.030	1	40	0.0024	0.570
Return on Assets	2.955	0.202	1	40	0.0012	0.620
Age of the company	0.835	0.085	1	40	0.608	0.608

Table 4.17 provides statistical evidence for the difference in means that was observed. The Wilks' lambda tested statistic used in the multivariate analysis of variance to test the influence on listing decision that both groups have identical means based on the discriminator. The F-values were high for most variables especially for company growth and return on asset. Wilks' Lambda coefficients were interpreted differently, where higher values signify that the means were identical. The Wilks' Lambda coefficients were highest for company growth and return on asset, thus confirming that both groups exhibited these biases in a similar manner. Wilks' lambda indicates the significance of the discriminant function. This table indicates a highly significant function ($p < .000$) and provides the proportion of total variability not explained, that is, it is the converse of the squared canonical correlation. The study also established that company size and age of the company had no statistical significant function with $P > 0.05$ indicating that discriminant function of the company size and age of the company in operations does not create biases in discriminant among the listed and non-listed companies.

The p-values suggested that, at a 95% confidence interval, Stock Market Liquidity, Stock Market Volatility, political environment, company growth and return on assets biases were confirmed to have different means, thus implying that the company listing decisions exhibited these biases in a different manner. Company growth and return on assets seemed to be the biases, which affected company listing decisions category more than the other was. The company size and age of the company in operation had biases were confirm not statistically significant as $P > 0.005$ at 0.899 and 0.608 respectively. The findings concurred with Kiboi (2012) found that motivating benefit for company listing decisions was to access to a wide capital base to increase return on assets and drew the conclusion that when a company was in need of heavy capital financing they would highly consider use of the capital market.

CHAPTER FIVE

CONCLUSIONS, RECOMMENDATIONS AND LIMITATIONS

5.1 Introduction

This chapter presents a summary of the study giving the implications of the findings based on the research objectives, conclusions and recommendations. The objective of the study was to identify the factors that determine company's listing decision on the NSE.

5.2 Summary of the findings

In the study market specific factors and company specific factors were extensively deliberated. From the results the market specific factors; stock market liquidity, volatility, political environment and the legal and regulatory framework were found to be influential and significant. Company specific factors; company age, size, profitability and company structure proved not to have any significant influence on the listing decision of the companies. Of the market factors the most influential factor was the political environment among the listed companies which is characteristic of African markets (Yartey, 2008).

The study established that a favourable political environment needs to be present to encourage stock market development. Consistent with the World Bank and other African authors (Yartey & Adjasi, 2007), the political environment of the country contributed to its financial development and consequently its stock market. Stock market volatility ranked fourth with reference to the listed group and findings provided that, based on the NSE 20-share index, companies are attracted to the market when this index is high. This implies that market activity encourages companies to list on the market as it creates

confidence in the market. It also indicated that the measures of volatility are not correlated. It was expected that high volatility would have a negative influence on company listings as would be the case when it is measured using the standard deviation of annualized returns. However, this study found that the higher the index the more likely companies would be to list. However volatility returned a positive relationship where a negative one was expected. At this, the study could not accept the alternative hypothesis as a Type II error would arise.

The implications of these findings are consistent with the empirical findings as the most prominent factor was the political environment, then market liquidity and finally volatility. Since the listed group companies have already met the legal requirements for listing, the legal and regulatory framework factor was excluded from the model. This was because historical data of the listed group was used for regression.

The study revealed that most companies in the non-listed group felt that the legal and regulatory framework was not favourable with special reference to the listing requirements at a level of influence by a mean of 4.78. These findings were consistent with Asea (2003) who established that a proper framework creates an enabling environment to encourage participation of enterprises in the stock exchange. Therefore, an overly stringent market would choke itself as it would deter companies from the stock exchange. Perotti & Laeven (2002) expressed the view that a favourable legal and regulatory framework encourages participation in the stock market. Therefore, results from the non-listed group support findings by Yartey & Adjasi (2007) that the framework of the NSE needs to be improved to encourage company listings. The political

environment was found to be the second most influential factor among the non-listed group at a 42.86% level of influence. This means that the companies are deterred from or attracted to the market based on the status of the country's political situation. The non-listed group findings show that the companies' listing decision is influenced by the country's political environment.

These findings are consistent with the World Bank (2009) research where the polity measure used determined that the more stable, i.e. democratic than autocratic a country was the likelier the growth of its financial market. These findings were consistent with authors on African markets (Yartey & Adjasi, 2007; Andrianaivo & Yartey, 2009), who found that the political environment has a major influence on stock market development. This is the case as the results explain the impact that changes in political regimes have on financial markets development.

The study found that company operated was considered an influential factor in their listing decision. This was in reference to the (de) regulation of the industry and interference by the government such that the company feels stifled. These findings were established from the companies listed under the telecommunications industry segment of the NSE. Further to this the companies expressed the view that introduction of automated trading systems as well as the central depository settlement and clearing system provided a more efficient market. This meant that the capital markets were more attractive to the companies. In as much as this may not have been a very major factor in the decision making, it did contribute to the companies' opting for the capital markets. In addition to this, it may be seen that a shift from manual to automated systems removes the

bottlenecks that exist in the listing process in terms of interaction between the company and investors.

From the findings, the study established that the non-listed group expressed four issues that have prevented their listing on the capital markets. Firstly, public scrutiny that comes with the exposure and visibility that a listed company receives deterred them. Whereas it was expected that it would be a factor to reckon with, the companies were of the opinion that this was necessary when the company was considering an expansion strategy. They also gave the opinion that maintaining the company's image with regard to profitability and corporate governance was a fairly expensive exercise which they were not yet prepared for. Secondly some of the respondents expressed the view that dilution of ownership as would be required under the listing regulations was a deterrent. This was especially the case with family owned businesses and those started by an individual and eventually grown into a company.

Interestingly these respondents had not ruled out the possibility of listing but it was not a priority to them during the time of the study. This factor ties in with the third issue that arose which refers to it not being necessary to raise long term funds as the company was not ready to expand. Fourthly, the company structure of the company in terms of organization and management structure. This refers to whether the company was locally owned or a multinational or its subsidiary such that the decision making process is reverted to the headquarters of the company. The timing and appropriateness of the listing was to be determined by management based on the needs of the company. The

respondents were of the opinion that the listing decision was to be determined by the company's growth stage based on the lifecycle theory.

The study established that the most important listing benefits considered motivating was the access to a wider capital base at an influence level that would enable them source long term funds for capital intensive projects. The implication of this would be that the companies go to the capital markets mainly when sourcing long term funds. The least considered benefits were investor diversity and business relations at 60.7% each. The implications of these findings would be that; one, for companies in as much as the range of investors would be increased when the company is publicly listed it was not highly desired due to the perceived dilution. Secondly, the company had established its necessary business relations and would least likely consider the capital markets as a factor it would use to pitch itself in the business environment.

The study established that of the used initiatives, the most prominent among respondents was the element of lowering costs. These costs did not only relate to listing costs but also to the cost of maintaining listed status. Further to this it was found that the NSE needs to be more innovative on products offered to the potential issues of securities. With regard to demutualization, the companies were hesitant implying that the market needs to give users time to adapt to this phenomenon. The re-classification of listed securities was not an initiative that respondents ranked highly. This indicated that as much as the re-classification makes industry analysis better and more objective, companies have possibly not understood its importance. The taxation rebate constantly offered to newly

listed companies was still not found to have a significant level of influence on the listing decision.

5.3 conclusion

The study concluded that market specific factors such as stock market liquidity, volatility, political environment and the legal and regulatory framework and political factors greatly influenced companies going public.

The study also concluded that market activity encourages companies to list on the market as it creates confidence in the market. The high volatility would have a negative influence on company listings as would be the case when it is measured using the standard deviation of annualized returns. This study concluded that the higher the index the more likely companies would be to list.

The study conclude that legal and regulatory framework was not favourable with special reference to the listing requirements .Therefore, an overly stringent market would choke itself as it would deter companies from the stock exchange. This was because companies not listed were deterred from or attracted to the market based on the status of the country's political situation. The study further concluded that disclosure requirement that comes with the exposure and visibility that a listed company receives deterred them from listing.

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considered benefits were investor diversity and business relations at 60.7% each. The implications of these findings would be that; one, for companies in as much as the range of investors would be increased when the company is publicly listed it was not highly desired due to the perceived dilution. Secondly, the company had established its necessary business relations and would least likely consider the capital markets as a factor it would use to pitch itself in the business environment.

The study concluded that the initiatives that could be undertaken to encourage companies not listed to listing as lowering costs, NSE to become more innovative on products offered to the potential issues of securities, giving the companies time to adapt to stock market phenomenon. The re-classification of listed securities was not an initiative that respondents ranked highly.

5.4 Recommendations of the study

From the findings, the study concluded that in order to encourage company listings policy makers need to ensure that government regulations should not be hindrance to public listing. The deregulation of industry sectors and reduced political interference has a direct impact on company listings.

The study recommends that to encourage companies listing in NSE, the NSE needs to consider lowering the initial cost of listing and maintenance of being publicly listed.

The study further recommends that the NSE needs to consider widening the product range offered so as to provide potential issuers with options. This will motivate Small and Medium Enterprises (SMEs) constitute majority of the companies in Kenya's private sector to go public.

The study finally concluded that the NSE needs to consider marketing the primary tier for potential larger companies by creating awareness on the benefits that accrue to the companies that are listed. This would further encourage company to list in the stock exchange.

5.5 Recommendations for Further Research

The study determined determinants of the decision by companies to list at the Nairobi securities exchange. Further research could also be conducted on the other East African countries to compare different factors influencing the listing decision stock market in the East African Community countries. A further study could also be carried to establish the relationship between company listing in stock market and financial performance of the listed companies.

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APPENDICES

Appendix 1: Research Questionnaire

This questionnaire has been designed to assist the researcher collect data relating to the factors determining listing decision of companies in Kenya. This is part of a study the researcher is doing at the University of Nairobi for the award of the degree of Master of Business Administration. You have been identified as one of the respondents in the study and are requested to complete the following questionnaire. The information you provide will be used only for the purpose of this study and will be held strictly confidential and in no way will your name or answers be revealed out.

Please answer all the questions as best as you can.

Part A: Company Profile

1. Name of the company.....
2. Age of the company since establishment
 - i. 5 – 15 years []
 - ii. 16 – 25 years []
 - iii. 26 – 35 years []
 - iv. Over 35 years []
3. What is the size of your company with reference to asset base?
 - i. Below 10 billion[]
 - ii. 11 – 60 billion[]
 - iii. 61 – 110 billion[]
 - iv. 161-210 billion[]
 - v. 211billion and above []

Part A: Listed Company

4. Rate how each of the following factors influenced your company's listing decision.

Statement	1	2	3	4	5
Stock market listing regulations requirements					
Stock market listing requirements					
Liquidity					
Disclosure					
Length of time in Operations					
Market Volatility					
Leverage of the company					
Profitability of the company					
Trading practices					
The Company Size					

5. Rate how each of the following factors influenced your company listing decisions.

Statement	1	2	3	4	5
Growing and high return expectation of the firm					
To raise cheap funds					
Earning high profits					
Rebalance firm accounts after a period of high investment and growth					
Evaluating management efficiency of the company					
Growth opportunities					

6. Rate the importance of the rationale for stock market using a scale of 1-5 where 1 Not important, 2- Less Important , 3- Neutral, 3- Important ,5- Very important

Importance	1	2	3	4	5
Enables company to acquire or dispose of securities at prices a fair and equitable					
Company's financial securities can be traded on the stock exchange of greater latitude					
Stock exchanges facilitate the trade in financial securities specifically equities, debt instruments and mixtures					
Increase in the financial market size					
Improve firm ability of financing needs in terms of sustainability and efficiency in the large scale and long-term projects					

7. Rate using a scale of 1 to 5 where 1-no extent, 2-Less Extent, 3-neutral, 4-Great Extent and 5- Very Great) on how the following market determinants influenced decision of your company to go public.

Statement	1	2	3	4	5
The stock market valuation of other companies in the same sector					
Financial capability of the company					
the company's size					
Inflation rate in the country					
Regulations in the financial sector					
Political risks					
Taxation rates					
Private capital Flow					
Competition in the financial market					
Legal requirement					
Use of raised funds.					

8. Rate the importance of the following benefits of a company going public using a scale of 1-5 where 1 Not important, 2- Less Important , 3- Neutral, 3- Important ,5- Very important

Importance	1	2	3	4	5
Raising funds for capital investments					
Gaining of greater latitude in raising cash from her financial asset portfolio					
Increase potential for earning a return on savings.					
To attain tax incentives					
Increase public ownership of the company					
Improve Capacity to explore multiple investment ventures through increasing company potential liquidity.					

9. The following are Market specific factors that influence companies go public. To what extent does the following markets factors influenced your company to list in the stock exchange? (1-means strongly disagree, 2-disagree, 3-neutral, 4-agree and 5-strongly agree).

Market factors	1	2	3	4	5
systematic risk faced by companies					
Regulatory and Legal Framework					
Competition in the financial market					
Political environment					
Stock Market Liquidity					

10. To what extent do you agree with the following company specific factors influenced your company's decision to go public? Rate on a scale of 1 to 5 (1=strongly agree 2=agree 3=no idea 4=disagree 5=strongly disagree)

Company Factors	1	2	3	4	5
The mix of debt and equity a company maintains					
Company Size by assets base					
length of time of the company in the market					
Profitability of a company					
Initial direct costs					
Loss of confidentiality-					
Taxation policies					

Part B: Company not Listed

Factors influencing Listing decisions

11. Rate the following factors which you consider to have influenced your company not being listed at NSE

Market Factors	1	2	3	4	5
Market Liquidity					
Volatility of market prices					
Company Valuation in the economic sector					
Disclosure requirement					
Listing requirements					
Compliance with IFRS					
Fair Trading requirements					
Taxation policies					

12. Rate how the following company factors influence your company not being listed at NSE? Using a scale of 1 to 5 (1=strongly agree 2=agree 3=no idea 4=disagree 5=strongly disagree)

Company Factors	1	2	3	4	5
The mix of debt and equity a company maintains					
Company Size by assets base					
length of time of the company in the market					
Profitability of a company					
Cost of listings					

Loss of confidentiality-					
Taxation policies					

13. Rate the benefits that would influence your company listing decision, using a scale of 1-5 where 1 Not important, 2- Less Important, 3- Neutral, 3- Important, 5- very important.

Benefits influencing listing decisions	1	2	3	4	5
Enables company to acquire or dispose of securities at prices a fair and equitable					
Access to a wide capital base					
Diversity in range of investors					
Enhance research and development					
Company's financial securities can be traded on the stock exchange of greater latitude					
Stock exchanges facilitate the trade in financial securities specifically equities, debt instruments and mixtures					
Increase in the financial market size					
Valuation purposes					

14. Please select which of the following initiatives by the NSE would influence your company to publicly list on the stock exchange:

Initiatives by NSE	1	2	3	4	5
Improved market efficiency to lower cost of raising capital					
Dynamic product development					
Demutualization of the exchange					
Re-classification of listed securities					

Appendix 2: Listing Requirements schedule

Eligibility requirements for Public Offering of shares and Listing as cited by The Capital Markets Securities Public Offers Listing and Disclosure Requirements (2002), Amended 2012.

	MIMS	AIMS	GEMS
Share capital & Net assets	Minimum authorized share capital of Ksh 50m & net assets kshs.100m	Minimum authorized share capital of Ksh 20m & net assets kshs.20m	Minimum authorized share capital of Ksh 10m & the issuer must have not less than one hundred thousand shares in issue.
Profitability and growth	Declared profits after tax in at least three of the last five completed accounting periods to the offer	issuer must have been in business at least 2 years and one of which should reflect a good growth potential	declared profits after tax in at least three of the last five completed accounting periods to the offer
Shareholding structure	Following the public share offering at least 25% of the shares must be held by not less than 1000 shareholders	Following the public share offering at least 20% of the shares must be held by not less than 100 shareholders	N/A
Free transferability of shares	Shares to be listed shall be freely transferable and not subject to any restrictions on marketability or any pre-emptive rights	Shares to be listed shall be freely transferable and not subject to any restrictions on marketability or any pre-emptive rights	Shares to be listed shall be freely transferable and not subject to any restrictions on marketability or any pre-emptive rights

<p>Availability and reliability of financial records</p>	<p>Audited financial statements complying with IFRS for an accounting period ending on a date not more than 4 months prior to the proposed date and 6 months for an already listed firm.</p>	<p>Audited financial statements complying with IFRS for an accounting period ending on a date not more than four months prior to the proposed date and 6 months for an already listed firm</p>	<p>Audited financial statements complying with IFRS for an accounting period ending on a date not more than four months prior to the proposed date and 6 months for an already listed firm.</p>
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Appendix 3: List of Companies

Listed Companies	Non-Listed companies
Kenya Re-Insurance Company Limited	Prime Bank Limited
Home Africa Ltd	General Accident Insurance Co. Ltd
Equity Bank Limited	Kenafric Industries Ltd
Safaricom Limited	Radio Africa Limited
Ken Gen Limited	Multiple Hauliers (EA) Ltd
Access Kenya Ltd	Mastermind Tobacco (K) Limited
Eveready East Africa Ltd	Doshi & Co.(Electricals)Ltd
Kenya Airways Ltd	ABC Bank Limited
Scangroup Ltd	Family Bank Ltd.
I&M Holdings Ltd	Phillips Pharmaceuticals Ltd