

ASHESI UNIVERSITY COLLEGE

**SME FINANCING: INVESTIGATING WHY THE GHANA ALTERNATIVE
STOCK MARKET (GAX) HAS NOT ATTRACTED LISTINGS**

MERCY TETTEH

THESIS

2014

ASHESI UNIVERSITY COLLEGE

**SME FINANCING: INVESTIGATING WHY THE GHANA ALTERNATIVE
STOCK MARKET (GAX) HAS NOT ATTRACTED LISTINGS**

By

MERCY TETTEH

Dissertation submitted to the Department of Business Administration,
Ashesi University College. In partial fulfilment of the requirements for the
award of Bachelor of Science degree in Business Administration

April 2014

Declaration

I hereby declare that this dissertation is the result of my own original work and that no part of it has been presented for another degree in this university or elsewhere.

Candidate's Signature:

Candidate's Name: Mercy Tetteh

Date: 15th April, 2014

I hereby declare that the preparation and presentation of this thesis were supervised in accordance with the guidelines on supervision of thesis laid down by Ashesi University College.

Supervisor's Signature:

Supervisor's Name: Mr Anthony Essel-Anderson

Date:

Acknowledgement

My extreme gratitude goes to my supervisor, Mr Anthony Essel-Anderson who provided the needed support and guidance enabling me to accomplish this research. To the officials of GSE (Aunty Joyce and Aunty Elizabeth) and SMEs that sacrificed their time to provide me with the needed information to complete this research, I say thank you.

I would also like to thank Nina Chachu for helping me find literature for this study and providing support in her own special way.

Special thanks to my parents, uncle and siblings for supporting me financially and spiritually from the start of this journey to the very end of it. I say God richly bless you.

Now to my friends, Emmanuel Hagan and Harriet Adansi, I say thank you for your encouragement- it paid off.

Abstract

Ghana Alternative Exchange (GAX) is an equity finance program established to help SMEs and start-up businesses with the potential of growing to raise capital at a lower cost from the public. The managing director of the Ghana Stock Exchange in an interview with XYZ Business said that he expected the first and second companies that have shown interest in the GAX to list by the end of the first quarter of 2014. However, there has not been a single listing onto the market eleven months after the program was launched. The purpose of this study was to investigate why the Ghana Alternative Stock Market (GAX) has not attracted listings after its launch on 13th May, 2013. The study used content analysis to understand the purpose for which the GAX was established after interviewing two officials of the GAX. Questionnaires were also administered to SME owners and operators to discover their willingness to list on the market for a successful running of the GAX.

The evidence suggests that SME operators are unwilling to go public and share ownership of their business with 20 other people. Secondly, they are not motivated and have low confidence in the market. As a result they are not ready to incur the risks that come with going public and listing on the market.

To motivate and attract SMEs to list on the GAX, GAX officials should reach the SMEs through the National Board for Small Scale Industries (NBSSI). They should also employ the use of billboard and TV adverts to reach large number of their target market and also to make the spread of information faster and easier.

Table of Contents

Declaration.....	I
Acknowledgement.....	II
Abstract.....	III
List of Tables.....	VI
Table of Figures.....	VII
CHAPTER ONE: INTRODUCTION.....	1
1.1 Background to the Study.....	1
1.2 Problem Statement.....	2
1.3 Objectives of Study.....	4
1.4 Research Question.....	5
1.5 Justification of Study.....	5
1.6 Theoretical Framework.....	6
1.6.1 Acceptance Theory of Management.....	6
1.6.2 Incentive Theory of Motivation.....	7
1.6.3 Going Public.....	8
1.7 Overview of Methodology.....	8
1.8 Outline of Dissertation.....	9
1.9 Scope and Limitations of the Study.....	10
CHAPTER TWO: LITERATURE REVIEW.....	12
2.1 Introduction.....	12
2.2 Demand Side Deficiencies.....	12
2.2.1 Equity Aversion of SME Owners.....	12
2.2.2 Inability of SMEs and Start-Ups to meet the Requirements of Equity Financing Programmes.....	13
2.2.3 Presentational Failure of SMEs and Start-ups.....	14
2.3 Supply Side Deficiencies.....	15
2.3.1 Spread of Information to Reach Target Group.....	15
2.3.2 Awareness of the Program to Intended Targets of the Program.....	16
2.3.3 Incentives to Motivate the Intended Target of the Program.....	17
2.4 Conclusion.....	18
CHAPTER THREE: METHODOLOGY.....	19
3.1 Introduction.....	19

3.2 Scope of the Study	19
3.3 Research Design	19
3.4 Population of the Study	20
3.5 Sample Size and Sampling Technique	21
3.6 Data Collection Techniques	22
3.7 Data Analysis Techniques and Procedure	24
3.8 Constraints to the Research.....	24
CHAPTER FOUR: DATA ANALYSIS AND DISCUSSION OF RESULTS.....	25
4.1 Introduction.....	25
4.2 Content Analysis of Literature.....	25
4.2.1 Factors that Influence listing on Alternative Markets	25
4.2.2 Factors that Undermine Alternative Markets (AX) in Developing Countries	26
4.2.3 Factors that Encourage Alternative Markets in Developing Countries	27
4.3 Ghana Stock Exchange Data Analysis.....	28
4.3.1The Purpose of Ghana Alternative Exchange (GAX)	28
4.3.2 Design and Benefits of the Ghana Alternative Market (GAX)	28
4.3.3 How to Keep the GAX Running	29
4.3.4 Current Performance of the GAX.....	30
4.3.5 Challenges that GSE and GAX Face	30
4.4 Discussion of Data Collected from SMEs.....	31
4.4.1 Willingness of SMEs to go Public for a Successful GAX	32
4.4.2 Factors that Motivate SMEs to get listed.....	35
4.4.3 SME Participation in Alternative Stock Markets.....	38
CHAPTER FIVE: CONCLUSION AND RECOMMENDATIONS.....	42
5.1 Conclusion.....	42
5.2 Recommendations.....	44
BIBLIOGRAPHY	46
Appendix 1:	53
Appendix 2:	54
Appendix 3:	56

List of Tables

Table 1: Definition of SMEs.....	21
Table 2: Need for external financing against awareness of benefits of the GAX.....	36
Table 3: How SMEs got to know of the GAX	40
Table 4: Level of awareness against access to information on the GAX.....	41

...

Table of Figures

Figure 1: Attitude towards equity financing	32
Figure 2: SMEs that wish to get listed	33
Figure 3: Entrepreneurs attitude towards external financing against willingness to get listed	34
Figure 4: The need for external financing by SMEs.....	35
Figure 5: SMEs aware of the benefits of GAX	36
Figure 6: Attainability of GAX requirements.....	37
Figure 7: Preferred channels of communication	39
Figure 8: SMEs with information on the GAX.....	41

CHAPTER ONE: INTRODUCTION

1.1 Background to the Study

Small and Medium Enterprises (SMEs) are crucial for economic development of the African continent. SMEs encourage entrepreneurship, generate employment and provide a quick return which help to transform the livelihood of many people (Avortri et al, 2013). SMEs have been identified as catalyst for economic development of a country as they provide employment and income. SMEs have been defined by the National Board for Small Scale Industries based on their capital base and the number of workforce. Small enterprises have a stated capital of up to US\$10,000 and 6 to 29 workforce whilst medium enterprises have a stated capital of up to US\$100,000 and 30 to 99 workforce. Accra comes first in the regional distribution of SMEs in Ghana.

Despite the crucial role that SMEs play in the economy, research has shown that SMEs have difficulty in accessing affordable capital which hinders the growth of SMEs in Ghana. Most small and medium enterprises (SMEs) have therefore sought to obtain capital or financing from microfinance firms and banks which come at a high cost and have negative effect on their financial position.

As Ghana strives to maintain its economic status of a middle income country, growth in SMEs is one of the ways forward. As a result, the Ghana Stock Exchange (GSE) saw it relevant to establish a stock market for SMEs, hence the Ghana Alternative Exchange or market (GAX).

GAX was launched on 13th May 2013 to focus on Small and Medium Enterprises (SMEs) and local companies with the potential to grow, raise

capital at lower cost from the public to finance their businesses and also improve the financial position of their businesses. According to GSE, GAX is the way for SMEs to grow because the requirement for listing on GAX is relaxed enough to capture SMEs with a minimum capital of GHS 250,000 and a minimum of 20 shareholders. Countries like Britain have used the Alternative Investment Market (AIM) to help their micro, small and medium enterprises raise huge and sufficient capital for growth and expansion and this is the path Ghana wants to take to help SMEs and the economy at large. It is interesting to note that Ghana is not the only developing country that has introduced the alternative market in this year; Nigeria and Kenya have also taken similar paths. In Kenya, the Nairobi Stock Exchange (NSE) launched the Growth Enterprise Market Segment (GEMS) on 22nd January 2013 (Nairobi Stock Exchange, 2013). The Nigeria Stock Exchange (NSE) also launched its Alternative Security Market (ASeM) on Tuesday 23rd of April, 2013. The idea of establishing an alternative market in Africa is geared towards helping countries achieve their development goals through growing SMEs. It is therefore necessary for us to know how well these alternative markets can perform to ensure that stock exchanges meet their targets and SMEs patronize the idea and generate huge capital from the exchange to better their business performances.

1.2 Problem Statement

Ghana, like many other developing African countries, has decided to introduce an alternative stock market as a tool to help it achieve its developmental goals. This is because any country that does not grow its small and medium enterprises is not ready to grow and develop (Ghana Government eService Portal, 2011).

Small and medium enterprises (SMEs) contribute about 70 per cent to the GDP of Ghana (Ghana Government eService Portal, 2011) but they find it difficult to expand because of their small capital base. In the last five years micro finance firms have provided financing to SMEs. However, this comes at high cost of between 4 to 6.5 per cent interest per month which deters most of the SMEs from using the service (Sarpong, 2013). For this reason there is a financing gap that SMEs face; the Ghana Stock Exchange (GSE) wants to fill that gap by introducing the Ghana Alternative Exchange (GAX); an alternative market for SMEs to go public and raise capital from the public. The three main alternative investment markets that were launched in Africa, early 2013, namely; the Ghana Alternative Exchange (GAX) launched by Ghana Stock Exchange, the Growth Enterprise Marketing Segment (GEMS) launched by the Nairobi Stock Exchange (NSE) in Kenya and the Alternative Security Market (ASeM) launched by Nigeria Stock Exchange (NSE) are all undergoing some challenges. However, ASeM has been able to attract eleven companies (Onyema, 2013) and GEMS have not attracted any listings (Mwarari, 2013). From the look of things, Ghana is taking the path of Kenya with GAX.

In December 2013, news reaching the public revealed that six firms have shown interest in listing on the exchange. The General Manager of GAX said in an interview with XYZ business on 29th November, 2013 that the exchange expects the first and second companies that showed interest in listing will do so by the end of the first quarter of 2014 (XYZonline.com, 2013). However, none of these companies have successfully listed on the exchange at the end of the first quarter of 2014 contrary to what the General Manager of GSE expected. Officials of GAX have not been able to

identify what exactly is causing SMEs not to list on the market. Failure of the GAX to attract listing means that SMEs in Ghana will continue to operate with small capital base and not serve the country with full potential. Ghana will also not be able to achieve the massive development it needs to transition from a developing country to a developed country as she wishes. This study therefore, seeks to investigate why GAX has failed to attract listings despite efforts put in by GAX officials to attract SMEs. The research also seeks to determine whether or not the market should be maintained or scrapped.

1.3 Objectives of Study

The purpose of this study is to gather knowledge on the ability of the GAX to attract listings and to make recommendation as to what regulators of GAX could do differently to make GAX successful. The study will focus on the willingness of SMEs to list on GAX and what GAX officials can do differently to attract listings. Listed below are the objectives that the study sought to achieve:

1. To identify the factors that influence the listing of companies on alternative markets in general.
2. To determine the main challenges that GAX is currently facing and confirm whether the minimum capital requirement of GHS 250,000 is the main challenge.
3. To assess the factors that have either encouraged or undermined alternative markets in developing African countries.
4. To conclude whether it made sense for the alternative market to have started in Ghana and whether there is a chance for the GAX to ever attract any listings based on findings from objective 3.

5. To recommend strategies to encourage listing on the GAX or to explain why the GAX is a bad idea that needs to be scrapped.

1.4 Research Question

To enable the researcher discover why GAX has not been successful or attracted listings, it is important to know what factors influence SMEs to either want to go public or not, and whether they are in good position to meet the requirements of GAX. The readiness of SMEs to go public and list on GAX will be a function of the dependent variable, success of GAX in Ghana. To this end the research questions that will help achieve the purposes of this research study are:

1. Why has the Ghana Alternative Stock Exchange (GAX) failed to attract any listings?
2. Should GAX be maintained or scrapped?

1.5 Justification of Study

A nation that does not invest in its SMEs is not ready for growth and development. Ghana is a nation striving to develop, it is therefore necessary to ensure that measures put in place to help SMEs grow and expand are feasible when implemented. This is to ensure that they serve the purpose for which they were introduced. The success of GAX is needed to promote growth for start-ups and SMEs which will in turn lead to economic development of Ghana. This study will help officials of the GSE assess what they can do differently to make GAX succeed and ensure that the development tool they introduced fosters development in Ghana.

1.6 Theoretical Framework

The stock market or stock exchange is an organized and regulated financial market where stocks are traded and pricing of the stocks are determined by the forces of demand and supply. An alternative market is a segment of any main stock exchange which has relaxed regulations to attract and enable SMEs to also go public and list on the exchange. Corporations float stock on the stock market through the stock exchange and this is how public firms invite the public to invest and become part owners of the firm. In light of this, stocks (bonds and shares) can be described as what represents ownership of a firm or company. Theories that this study will be built on are acceptance theory of management, incentive theory of motivation and going public.

1.6.1 Acceptance Theory of Management

Acceptance is the act of taking or receiving an offer and agreeing to the terms and conditions of the offer. The acceptance theory of management was elaborated by Chester Barnard in 1938 in his only book *The Function of the Executive* (Hartman, 2009). The acceptance theory argues that a person who gives an order only has authority when the order is accepted by those receiving it. Therefore, the willingness of subordinates to accept and comply with an order from an authority gives that authority the power to rule (Mishra, 2011). Similarly an idea or program can only materialize when it is accepted by the people to whom the program was prepared for. Therefore GAX can only be successful when SMEs are willing to list on it. There are four factors that influence acceptance. They include:

1. Understanding the offer

2. Accepting the offer because it is consistent with the organization's goals
3. When people feel their actions will be consistent with the needs and desires of other people
4. When people feel that they have the capacity (mentally and physically) to carry out the order (Hartman, 2009)

For the purposes of this study, the researcher will focus on factors 1, 2 and 4; investigating on how well SMEs understand the GAX, how consistent the role of GAX is with the goals of SMEs and their capacity to meet the requirement of GAX to help answer the research questions.

1.6.2 Incentive Theory of Motivation

Motivation is the process of arousing, directing, and maintaining behaviour towards a goal (Greenberg, 2010). It is therefore any force that causes people to act in a specific way or the reason why people do things in a particular way (Szabó, 2012). The three main components of motivation (arousal, direction and maintenance) describe what drives people to behave in a certain manner, their choice of behaviour and the willingness to pursue a course of action in order to achieve a desired goal respectively (Greenberg, 2010). In this study, the incentive theory of motivation is used to determine how valuable the incentives offered by the Ghana Alternative Exchange (GAX) market are to SMEs.

Incentive is any external force that encourages people to behave in a certain way. Hence incentive theory of motivation suggests that the behaviour of people is motivated by incentives or external reward (Szabó, 2012). People behave differently towards situations based on the value they place on the incentives that come with the situation. Therefore incentives have to be

obtainable and valuable to motivate people to act. Similarly, the behaviour of SMEs to either list or not list their stocks on the alternative market can be influenced by the value they place on the incentives that the alternative stock market has to offer.

1.6.3 Going Public

The act of companies inviting the general public to also become part owners of the then private owned corporation through an initial public offer (IPO) is termed going public (Investopedia, 2009). When a firm decides to go public, it will have to be ready to make adjustments to how operations are organized in the firm to meet the rules of the stock exchange. In most venture business it is only when the venture business goes public that the venture capitalist can be paid his or her amount invested in the venture (Pagano et al, 1998). Therefore every company or venture business that goes public must weigh the pros and cons, seek professional advice, study key steps in dealing with underwriters and study the IPO process before making a final decision to go public.

1.7 Overview of Methodology

In order to investigate why GAX has not attracted listings and to determine what to be done differently to make it a success, there is the need to collect data that will enable realistic conclusions to be drawn. Hence, the researcher collected both primary and secondary data to make qualitative analysis. Primary data were collected from two officials of the GSE in an interview session to investigate factors that influenced their decision to introduce the GAX. Secondary data on factors that influence listings on alternative markets in developing countries as well as alternative markets

in general was gathered from the internet. This information was compared to the current state of GAX for decision making. Purposeful sampling was used to select two officials of GAX to interview for the study. The interview enabled the researcher to ask follow up questions where necessary. Questionnaires were administered to managers and financial controllers of fifteen SMEs in Accra since they make decisions in the firms and influence the decisions of owners. This helped gather information on why they have not taken steps to get listed. The questionnaires were administered by the researcher in person to make collection of feedback easier. The SMEs were selected using purposive and snowballing method and the managers and financial controllers, using purposeful sampling because of time constraints and to attract respondents who had answers to the researcher's questions. Analysis of data was done mostly using content analyses and descriptive analysis. SPSS was used to develop the descriptive tables while Microsoft Excel charts and graphs were used for the presentation of result.

1.8 Outline of Dissertation

The paper is organised into five chapters with each of them containing specific and distinct information.

The first chapter covers the background, research problem, relevant questions that will inform the study, the objectives of the researcher and justification of the research. Chapter One will also include brief summaries of the literature work that will provide a framework for the study and an overview of the methodology of the study.

In Chapter Two, literature concerning the study was reviewed using secondary data obtained from books and online.

Chapter Three gives information on the methodology of the study. Here the researcher defines variables with justification and describes how data will be collected and analysed to make informed decisions. In this chapter primary data will be collected.

Chapter Four contains analysis and discussion of results where the researcher interprets findings. At this stage the use of tables and graphs from Excel were used to give a pictorial explanation of the results to make understanding easier.

Lastly, Chapter Five includes conclusions and recommendation based on the information obtained from the research and analysis of results on how GAX can be made successful.

1.9 Scope and Limitations of the Study

This study investigates why the Ghana Alternative Exchange (GAX) has not attracted any listings. The paper is determined to access factors that influence listings among SMEs in Accra and conditions which need to be met by GAX officials to attract the SMEs. The study was carried out between March and April 2014.

Alternative market is new to Africa as such there were not enough scholarly articles on the subject matter of this paper. However, the researcher made use of the few African articles together with scholarly articles from Western countries on factors that influenced listings on alternative markets that were available. Also, the National Board for Small Scale Industries (NBSSI) as well as the registrar of companies did not keep track of the number of SMEs in Ghana. This made it impossible for the researcher to know the population of the study. However, this did not substantially affect the

research because the researcher was able to meet the required sample size for the study.

Some of the owners and operators of SMEs filled the questionnaires reluctantly and could not respond to all the questions administered. However, majority of the respondents fully filled the questionnaires. Hence, this will not substantially affect the results of the study.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

After several deliberations, GSE has finally introduced a program called Ghana Alternative Market (GAX) on 13th May 2013 to enable start-ups and SMEs with the potential of growing to raise affordable capital. Regulators of GAX have provided a listing support fund among other benefits to financially assist SMEs that would want to list. Eleven months after GAX has been introduced there has not been a single listing on the program from neither start-ups nor SMEs. The question therefore is whether the program should be allowed to keep running, scrapped or altered to meet the appeal of its intended target group. This chapter focuses on providing information on works done concerning factors that influence listings on an alternative stock market and how these factors can be managed to ensure the success of an alternative stock market. These factors can be grouped under demand and supply sides of an alternative market.

2.2 Demand Side Deficiencies that Influence Listing on an Alternative Market

SMEs and entrepreneurs form the demand side of an alternative market and their activities and capacity such as those listed below influence their ability to accept and list on the alternative exchange (AX).

2.2.1 Equity Aversion of SME Owners

Equity aversion measures the willingness of an entrepreneur to access equity financing. Amongst entrepreneurs who have high equity aversion, the fear of losing part of their business to others and sharing of control has been the main reasons (Mason and Kwok, 2010) for not accessing equity

financing. Therefore, considering an alternative market that requires its applicants to increase the number of people who share in the ownership of the business, it is likely that entrepreneurs who are risk averse will not list on the market. This attitude can be related to their lack of access to information on the incentives that the program has to offer and the importance of using alternative forms of financing for the development of businesses (Kadariya et al, 2012). Therefore to ensure healthy growth of alternative stock markets, SMEs have to be educated and informed on the importance of accessing equity financing for development and growth of their businesses (Mason and Kwok, 2010). They must also be made to understand the incentives that the equity financing programmes have to offer. This information will motivate them to access alternative financial markets.

2.2.2 Inability of SMEs and Start-Ups to meet the Requirements of Equity Financing Programmes

Alternative stock markets like GAX and AIM seek to help SMEs and start-ups with the potential of growth to access equity financing to facilitate development of their businesses. However, most of the SMEs financing programmes are not utilized because the SMEs are not able to meet the requirements of the financing programmes. Some of the reasons that account for this deficiency include failure to seek information on how to improve the management strategy and financial considerations of the business to help boost the profitability, sustainability and growth of the business (Mason and Kwok, 2010). SMEs and start-ups are unable to seek help because the cost associated with hiring professionals to provide these services are expensive and SMEs unaffordable by SMEs.

Start-ups are sometimes not able to develop credible revenue models such as how they are going to attract paying customers and market the goods and services they produce. Since equity financing markets mostly target businesses with growth potential, it makes it impossible for such businesses to be allowed to list on the market (Mason and Kwok, 2010).

2.2.3 Presentational Failure of SMEs and Start-ups

The inability of SMEs and start-ups to sell themselves hinder them from accessing equity financing. A business may be realistic, viable and have potential for growth but if it is not properly pitched, investors may turn it down. This is because the management team of the business may appear as incompetent (Mason and Kwok, 2010). The shortcomings of SMEs mostly occur in the writing of admission documents which reflects their incompetence and lack of knowledge about the program (Mason and Kwok, 2010). It is for this reason that the London Alternative Investment Market (AIM), a successful SME equity financing program, has adopted the nomad system which requires every applicant to have a nomad official to advise management on how to meet the requirement of AIM and it is based on the report provided by nomad that the SME is accepted on the exchange (Rosseau, 2006). Entrepreneurs are sometimes not able to demonstrate a need for their product hence investors are not convinced on how they are going to attract customers to sustain the business in future. Entrepreneurs who are able to present compelling and convincing stories about their businesses are most likely to raise equity financing.

2.3 Supply Side Deficiencies that Influence Listings on an Alternative Market (AX).

The activities and offers of organizations, such as the Ghana Stock Exchange (GSE), that provide alternative market (AX) influence how SMEs respond to the market. Some of these activities are discussed below.

2.3.1 Spread of Information to Reach Target Group

Policy makers can only understand the finance need of SMEs when they have access to information and SMEs can decide to accept SMEs finance programmes when they have access to information on the program. Wallis and Migiro defined information as any stimulus that reduces uncertainty and influences people's aversion to programmes and structures (Migiro and Wallis, 2006). Alternative stock markets can be successful when those who introduced the market are able to find information on the kind of incentives that are most likely to attract SMEs and how to communicate these incentives to the SMEs. It is the responsibility of policy makers to ensure that the right information gets to their target group and the right channels of communication is used to help reach the SMEs. Research has proven that most SME operators rarely access information through e-mails and the internet but mainly through face-to-face interaction, billboard advertisements and magazine advertisements (Migiro and Wallis, 2006). Poor spread of information constrains the awareness of incentives that an alternative market has to offer hence hinders the acceptance of the market (Guiso and Jappelli, 2005). Also, when information is lacking, it is difficult for SMEs to identify current finance options, which options are appropriate, the requirements of the options and how to apply for the options (Migiro and Wallis, 2006). Spread of information is crucial to a successful SME

finance program because it is only after information on the market has reached these SMEs that they can take steps to find details of the market to create awareness of the market.

2.3.2 Awareness of the Program to Intended Targets of the Program

Awareness is created when SMEs get to know of the rules and regulations of the market and can identify incentives that are valuable to their business and make decision based on that discovery. Research done by Guiso and Jappelli in 2005 revealed that there is a positive relationship between awareness and stock market participation (Guiso and Jappelli, 2005). This means, the more SMEs are made aware of equity financing programmes the higher the chances of them listing on the program. Entrepreneur awareness is the entrepreneur's knowledge about the market. It measures exposure about the market and how decisions are made based on the knowledge acquired (Kadariya et al, 2012). Most SMEs are not aware of current SME finance markets because policy makers of the alternative markets are not able to pitch their incentives to attract SMEs. At other times, because policy makers do not have enough information on the financial needs of SMEs, they advertise the wrong incentives. These incentives do not attract the attention of SMEs because the value that an entrepreneur places on an incentive motivates the entrepreneur to access that finance option (Szabo, 2012). Awareness of alternative stock market is important because it helps firms to develop skills to protect themselves against malpractices and make the most out of the market. With efficient management, awareness can help alternative markets attract listings (Kadariya et al, 2012). Therefore it is important that policy makers ensure

that they create awareness of the market to motivate and attract SMEs and start-ups to list on the market.

2.3.3 Incentives to Motivate the Intended Target of the Program

Incentives are external forces that influence the way people behave towards programmes and initiatives. For equity financing programmes to succeed they must present to SME managers, valuable incentives which will motivate them to access the market. Failure to access information on what the finance needs of SMEs are, results in policy makers providing incentives that are not valuable to SMEs. Therefore these incentives do not attract SME operators leading to the failure of the market (Guiso and Jappelli, 2005).

Some key ingredients of a successful alternative stock exchange include relaxed regulations, support systems and engagement of SME operators (Kloet and Cowan, 2012). Policy makers must ensure that the regulations and requirements of the market are attainable and reasonable enough to secure the sustainability of the market. Using a principle based admission criteria over rules based admission criteria increases the attractiveness of an alternative stock market (Rosseau, 2006). For instance, the AIM does not require applicants to meet any minimum stated capital. However, for the purposes of sustainability, it ensures that the applicant has a strong management team, has the potential of growing and the business is viable with the help of nomad officials (Rosseau, 2006).

Also, SME operators must be engaged during the design stage of an alternative market to help policy makers design programmes that will meet the needs of its target group. This will help policy makers develop

obtainable and valuable incentives that will meet the needs of SMEs, create awareness and motivate SMEs to patronize equity finance programmes.

2.4 Conclusion

For a successful alternative market, investment readiness deficiencies must be addressed from both the demand side and supply side of the market (Mason and Kwok, 2010). From all the demand side deficiencies mentioned above, it is evident that lack of information leads to the inefficient utilization of equity financing programmes by SMEs and start-ups. Failure to seek information results in unawareness of incentives that alternative markets have to offer, hence failure to accept the market. Lastly, because SMEs do not invest in sourcing information on the alternative markets they are unable to meet requirements and this reflects in the kind of facts and figures presented in an admission process.

On the supplier side, the need for information stood out as a key ingredient to a successful alternative market. Through proper spread of information on appropriate channels, SMEs are made aware of the alternative finance options open to them and are able to identify valuable incentives which influences their decision to accept and apply to the appropriate finance option. Access to information helps Policy makers to design SME finance options that are targeted at the finance needs of SMEs.

CHAPTER THREE: METHODOLOGY

3.1 Introduction

The previous chapters discussed the need for an alternative stock market and literature on conditions that lead to a successful alternative stock market. This chapter presents detailed explanation on how the research was carried out, including how data was collected and analysed.

3.2 Scope of the Study

The study seeks to determine the feasibility of GAX and conditions that need to be in place to ensure the success of the program. The intended target groups of the GAX are SMEs and start-ups with the potential of growing; hence the research focused on SMEs and start-ups within the Greater Accra Region of Ghana. Data gathered from participants was used to inform GAX regulators on the rules and regulations SMEs viewed as realistic and could be met. This was also to help create awareness of the program to its intended target group.

3.3 Research Design

An exploratory research was carried out to investigate why GAX has not attracted listings since its launch. An exploratory design is conducted to research and gain insights on a problem that is in its preliminary stage (Lynn and M, 2013). An exploratory design was used in the study because GAX is only a few months old and the problem the exchange is facing can be said to be in its preliminary stage. Therefore the proposed design will help the researcher come up with findings that will determine whether or not the program will be feasible in the future. Exploratory research design is qualitative in nature and requires data collection tools like in-depth

interviews which helped the researcher to obtain detailed information on the problem.

3.4 Population of the Study

Population of a study is the group that the researcher seeks to draw conclusions on. It is difficult to estimate the number of SMEs in Ghana because there is no proper system in the country to keep records. SMEs are also not tracked to identify if they are still existing and operating. However, SMEs in Ghana account for more than 70% of the country's gross domestic product (GDP) and represents about 75% of general employment (Boateng, 2012). According to the Registrar General's Department about 92% of companies registered annually are micro, small and medium enterprises (Boateng, 2012). Since it was not possible for the researcher to study the entire population, the researcher concentrated on SMEs in Accra that have registered with the National Board for Small Industries. The researcher chose Accra because of its concentration of small and medium scale businesses. Also, Accra comes first in the regional distribution of SMEs in Ghana.

According to the National Board for Small-Scale Industries (NBSSI), micro, small and medium enterprises are defined based on the number of employees and value of its investment capital. The conceptualization of SMEs is shown in the table below.

Table 1: Definition of SMEs

Business Enterprise	Workforce	Investment Capital
Micro	1-5	Up to US\$10,000
Small	6-29	Up to US\$100,000
Medium	30-99	Up to US\$1,000,000

(Source: National Board for Small- Scale Industries) Table 1: Definition of SMEs

The second population of this study is the Ghana Stock Exchange. Since the Ghana Alternative Exchange is only a small section of the activities of the GSE, the researcher focused on regulators of the GAX only, rather than the entire regulatory body of the GSE.

3.5 Sample Size and Sampling Technique

To be able to tap into the knowledge of GAX regulators who have sufficient knowledge about the program, a purposive sampling approach was used. This enabled the researcher to select participants who are relevant to the study. The researcher interviewed two top managers out of the three members as indicated by the market.

Two officials, preferably the General Manager or owner and financial controller, each were selected from fifteen SMEs in the Greater Accra Region of Ghana. The role of the General Manager is to oversee and administer variety of business functions and the financial manager is to provide financial advice and support to the firm. Therefore, these people were in a good position to provide accurate data needed for this study. A sample size of six SMEs was arrived at using a sample size calculator at confidence level of 95%. However, fifteen SMEs were used in the study because most

researchers who did similar study used large sample sizes. Also, two officials were selected because the researcher wished to question top managers of the SMEs. The fact is that SMEs do typically have small management teams hence two subjects are enough to represent the firms and give enough information to the researcher under the area of study.

A purposive sampling technique was employed when selecting both the SMEs and the SME officials to be used in the study. This was to enable the researcher select SMEs that are relevant for the study and officials who are well informed about how their business finance its operation and have power to influence how the business is being financed. Also the officials had to be people who could give the researcher the needed attention and give responses relevant for the study.

3.6 Data Collection Techniques

The researcher first sought the consent of subjects before data collection begun to ensure that all participants in the study did so voluntarily. The main instruments used to collect data in this study were in-depth interviews and questionnaires.

In-depth interview was conducted with the regulators of the GAX. In-depth interview was to enable the researcher obtain information on the need for an alternative market in Ghana, their targeted number of applicants within the first year, and what their back up plan is. Information gathered from the interview informed how questions were framed in the questionnaire, and the kind of SMEs to select for the study. An interview guide was prepared to serve as a guide for the interview sessions.

Next, questionnaires were administered to SME operators in Accra to collect data on variables that support an alternative stock market. This

method was used to investigate their awareness level and access to market information. Question on awareness required a yes or no answer followed by a four Likert item developed from one to five where 1 represented 'not aware', 2-less aware, 3- aware, 4- fairly aware and 5- highly aware.

The researcher gave out a consent form to all participants and upon acceptance, the interview was held and questionnaires were administered. Before the interview started, the researcher briefed participants on the importance and objectives of the study to ensure that participants equipped themselves properly. Since the questionnaire (interview guide) was filled and organized by the researcher, she was able to ask follow up questions and observe confidentiality of participants. Each interview session was expected to last for at least 30 minutes and the research accomplished that. Primary qualitative data which mainly gives reason and conditions under which GAX can be made successful or can lead to the failure of GAX was gathered to help the researcher develop meaningful conclusions.

It was necessary to speak to the regulators of the GAX since they were involved in the designing of the program. Hence they have better understanding of what the program seeks to achieve. A qualitative research was used because the researcher seeks to have an in-depth understanding of the alternative exchange and its purpose.

A qualitative research was carried out because most researchers like the likes of Garcia-Perez-de-Lema at el in 2011, S.O Migiroy and M. Wallis in 2006, and Sudarshan Kadariya at el in 2012 who have done works in this area employed the same research design.

3.7 Data Analysis Techniques and Procedure

In analysing the data, content analysis and descriptive analysis was employed. The researcher looked out for key words and themes during analysis to determine which variables should be given more attention in the study.

The response from in-depth interviews and questionnaires were graphed for easy and better representation. Frequency tables were derived using SPSS for the response acquired from questionnaires and the results were graphs. Microsoft Office Excel charts and graphs were used to present results.

3.8 Constraints to the Research

The researcher did not have any support in terms of funding hence had to personally finance the project. For effective use of funds, the researcher made good use of resources provided by the college authorities. The researcher also, had a hard time collecting data since most people were reluctant to attend to the researcher. This in turn extended the data collection time. However this limitation did not prevent the researcher from obtaining sufficient information necessary for the study.

CHAPTER FOUR: DATA ANALYSIS AND DISCUSSION OF RESULTS

4.1 Introduction

This chapter outlines findings from both primary and secondary data collected from selected GSE literature, officials, and SMEs. The data collected from SMEs were inputted into SPSS and Microsoft Excel for various descriptive analyses and presentations respectively. The primary data was collected to have more knowledge on the purpose of GAX and the expectations of GAX regulators. Information from here will also help determine which valuable incentives are on the market as well as some challenges the market is currently facing.

4.2 Content Analysis of Literature

In this session the researcher analysed literature to determine factors that influence listings on alternative market in general as well as factors that undermine or encourage alternative markets in developing countries. Information from here provides insight on some conditions that could cause an alternative market to attract listings and basis to conclude whether or not to keep the GAX in operation.

4.2.1 Factors that Influence listing on Alternative Markets

Creating of awareness is the most influential factor when it comes to accepting alternatives markets by SMEs (Kadariya et al, 2012). To create awareness there must be proper spread of information outlining the incentives that the market has to offer. Some of the incentives that SMEs normally look out for from an alternative market include flexible admission criteria, applicants not being required to meet a specific minimum capital and having access to support structures in the listing process. This is

important because it is only when an alternative market is offering a valuable incentive that SMEs are attracted to the market. According to GAX officials, information has not reached most of the target members of the market. This explains why there has not been any listings on the GAX. The only way for the SMEs can be aware of the incentives of GAX is through proper spread of information (Gusio and Jappelli, 2004).

This is to say that alternative markets attract listings when policy makers focus on providing valuable incentives to the SMEs and ensure that information on the market reaches the target of the market.

4.2.2 Factors that Undermine Alternative Markets (AX) in Developing Countries

Most small and medium enterprises are family owned and the owners being risk averse in addition to their unwillingness to share ownership of their business make it difficult for them to accept alternative market. Listing on alternative markets means sharing ownership with many other people who are not related to the owners of SMEs and this to them is a risky venture which makes their willingness to go public in the first place unlikely.

Also, acceptance of an alternative market is influenced by the incentive that the alternative market is ready to offer to the SMEs. Some of the incentives that SME owners look out for are the listing requirement of the market, and the support programmes that market can provide. An interview with the CEO of an SME in Nigeria revealed that one of the reasons why his firm has not listed is linked to the cost associated with the first listing. He said "I learnt that the market provides easy and cheap funds for businesses to grow, but the problem remains that before you get to the point of entering

the market you have to spend a fortune which you are in need of, and you may not be sure whether your offer would fly considering the prevailing mind set of some Nigerians about the market, and also you do not know what awaits you after listing” (Business World Intelligence, 2014). From this we can also say that SMEs in developing countries lack confidence in alternative market hence they are reluctant to list on them.

A study done in Kenya-Nairobi also revealed that the minimum stated asset required of SMEs as a listing criterion hinders their willingness to list on such markets. Also awareness and access to information about the market critically influences listing of SMEs on alternative market but most often these information are not easily accessible and this undermines the alternative market (Mwarari, 2013).

4.2.3 Factors that Encourage Alternative Markets in Developing Countries

From literature, awareness of valuable incentives was realised as the number one factor that has encouraged SMEs to list on alternative markets. Nigeria’s success story was as a result of creating awareness through the wide media coverage to all relevant stakeholders, making comprehensive presentations at events organized by SME associations, communication through brochures and flyers, road shows across the country, and having quarterly workshops (This Day Live, 2014). However, respondents of the study mentioned the need for education as a tool to help change the mind set of entrepreneurs in developing countries towards alternative markets. Also, through education awareness will be created which will also boost the

confidence of SMEs in alternative market and be motivated to embrace such markets.

4.3 Ghana Stock Exchange Data Analysis

Two officials of GAX were sampled and interviewed. The interview was carried out to identify challenges and successes of the market and to compare results of the interview to literature. Interview with these officials (GSE representatives) revealed the following outcome;

4.3.1 The Purpose of Ghana Alternative Exchange (GAX)

The main stock market (Ghana Stock Exchange) comprises of three official lists namely the first, second and third official list and each list has different requirements. Most firms regarded the second and third lists as inferior and do all they can to be on the first official list knowing very well that they do not have the capacity to stay on the first official listing. As a result such firms end up performing poorly after getting listed. This act pulled by smaller firms with low capacity motivated the board of GSE to establish the GAX. GAX as described by its officials, is parallel to the main exchange and is established to serve as a new market which operates on its own to provide equity financing to smaller firms. The officials stated that most countries have adopted the same strategy to attract smaller firms who do not want to be on other official lists of the main market.

4.3.2 Design and Benefits of the Ghana Alternative Market (GAX)

According to Guiso and Jappelli in 2005, it was necessary for policy makers of an alternative market to find out from SMEs what their specific needs were and design the benefits of the market to suit those needs. Therefore for GAX officials, knowing who the target of the market was, organized

seminars with some of the SMEs to gather information on what they will expect of the market during the design stage of the program in order to design an attractive market. Some of the incentives that the GAX has to offer, based on information gathered from SMEs, include:

- A relaxed and post floating requirement as compared to the main market.
- A support fund to cover initial cost of listing (however this amount is not for free but without interest).
- Credibility of the business is increased.
- The Floating 25% of shares with a minimum of 20 public shareholders.

However, according to respondents, Floating 25% of shares with a minimum of 20 public shareholders is not a valuable incentive because they are not ready to share ownership of their businesses with 20 other people. Also though the exchange was providing fund to support initial listing, the amount was not free and they were not ready for that added cost. On the other hand, respondents admitted that the minimum stated capital was a valuable since it was affordable.

4.3.3 How to Keep the GAX Running

For the GAX to run effectively, entrepreneurs, business owners and investors must be kept informed about the existence of the market. Officials rely on print ads, seminars and personal interaction with potential SMEs to spread information about the GAX and to create awareness. Officials admitted that they have not been able to reach a large number of their target population and most of them are not aware of the program. This

explains why there are no listings on the market because according to Kadariya et al in 2012, when SMEs are not informed about the existence of an alternative market automatically they are not also aware of the benefits the market has to offer. Hence, they cannot take steps to get listed. To easily reach a large number of SMEs, running adverts on TV and radio would have been a good option. However, the Ghana Stock Exchange is not supported by government and has a lean budgets. Hence, the board do not have enough funds to support this course.

According to the GAX officials, SMEs and start-ups can secure a place on the market when they able to meet the requirements with an effective management team and have a convincing two years business plan respectively. However, according to SMEs, the only way the market can be kept running is by ensuring that information about the market is accessible to them.

4.3.4 Current Performance of the GAX

SMEs have responded positively to the market however they are not able to list because they do not keep proper books of account plus its time consuming to get organized for listing. Also, SMEs are not interested in going public and this factor also restricts them from listing. However, on the whole, officials claim that the performance of the GAX has been good and expect to see about three firms listing by the end of 2014 and more firms listing by 2015.

4.3.5 Challenges that GSE and GAX Face

Most SMEs are family owned business and it is the desire of owners to transfer ownership of their business to relatives. The challenge to GAX is

that SMEs are stuck to the mentality of full ownership of their businesses. As a result they have negative attitude towards going public forgetting that allowing others to invest in their businesses will help the business grow and they will be worth more. As one official put it, "it was better to own 75% of a business worth GHS50,000 than to own 100% of a business worth GHS 20,000".

Also Ghana does not have policies to support the market. In most countries it is mandatory for foreign companies, after about one or two years of operation, to give about 30% or 35% ownership of the company to the country. However, the situation is different in Ghana leading to foreign investors coming into the country to establish businesses which run on their own, make money and carry all the money to their native countries. At other times when the owner of the company dies the company dies as well leaving more citizens unemployed and causing economic problems for the country.

4.4 Discussion of Data Collected from SMEs

The researcher administered questionnaires to thirty SME managers and they all responded to the questionnaires. Data collected from SMEs on how they access information and their willingness to accept the GAX and patronize its activities is discussed below.

4.4.1 Willingness of SMEs to go Public for a Successful GAX

The study sought to find why the Ghana Alternative Stock Market (GAX) has not been successful or attracted any listings and to identify what can be done to make the GAX achieve its purpose. To do this it is important to find out from SMEs in Ghana if they would like their businesses to go public in the first place. SMEs must go public in order to list on the GAX, meaning that if the targets of the GAX are unwilling to go public or have high risk of aversion to equity financing then the success of the GAX will be hindered (Mason and Kwok, 2010).

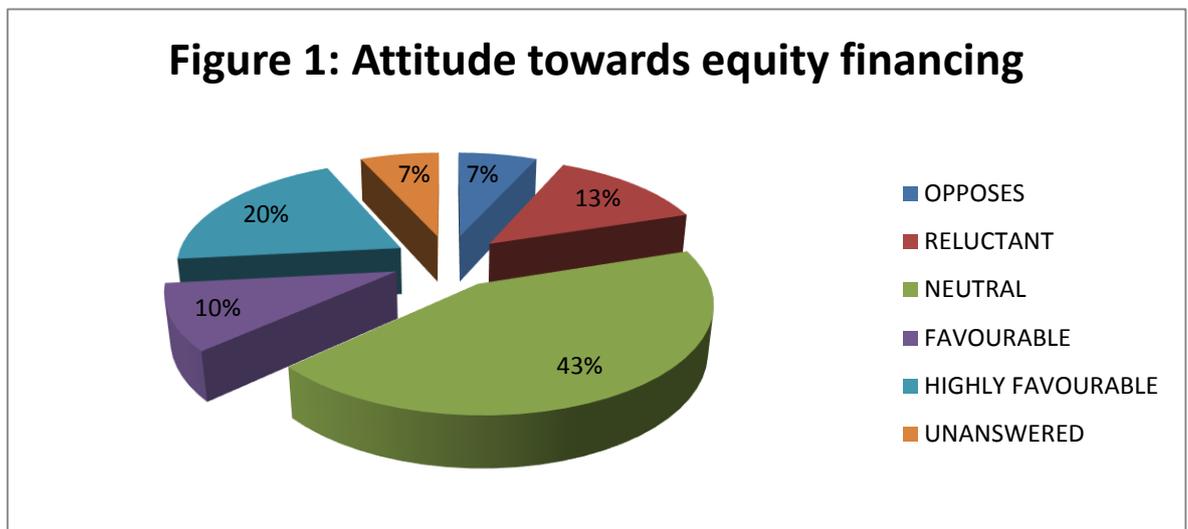


Figure 1: Attitude towards equity financing

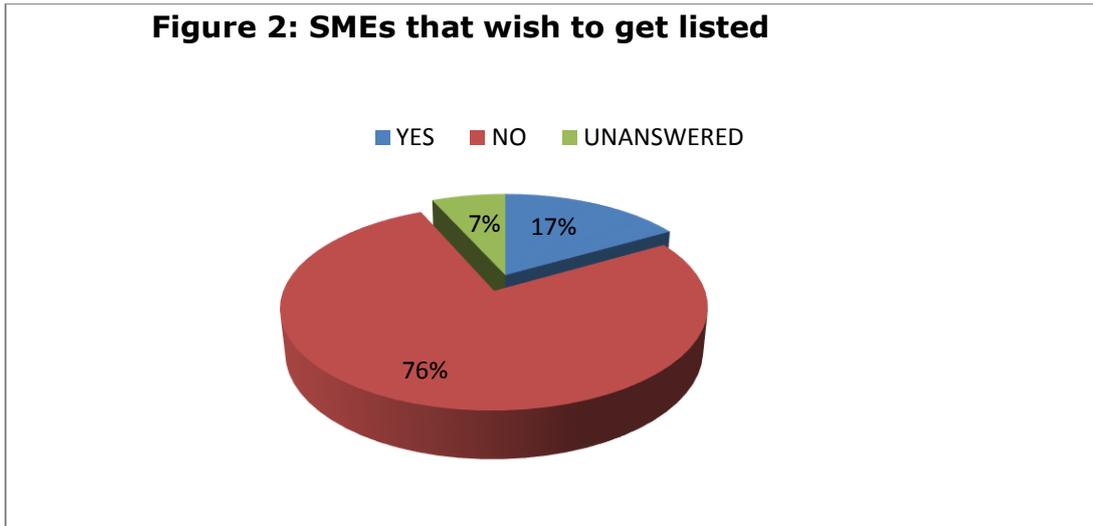


Figure 2: SMEs that wish to get listed

The researcher asked SME managers about their attitude towards equity financing. This was to determine if respondents would like to go public. Out of the thirty respondents, 7% did not attempt the question. From Figure 1, it is evident that majority of the respondents (43%) have neutral attitude when it comes to sourcing equity financing and 20% act highly favourably in terms of sourcing equity financing. This shows that majority of the respondents do not mind going public. However responses from the next question, which was if they would like to list on GAX, showed that majority did not have any interest in listing on GAX. This is shown in Figure 2, where 76.7% of the respondents were not willing to get listed on the GAX whilst 16.7% were willing to get listed. This then raises the question as to why respondents though did not oppose to the idea of assessing equity financing did not want to list on GAX.

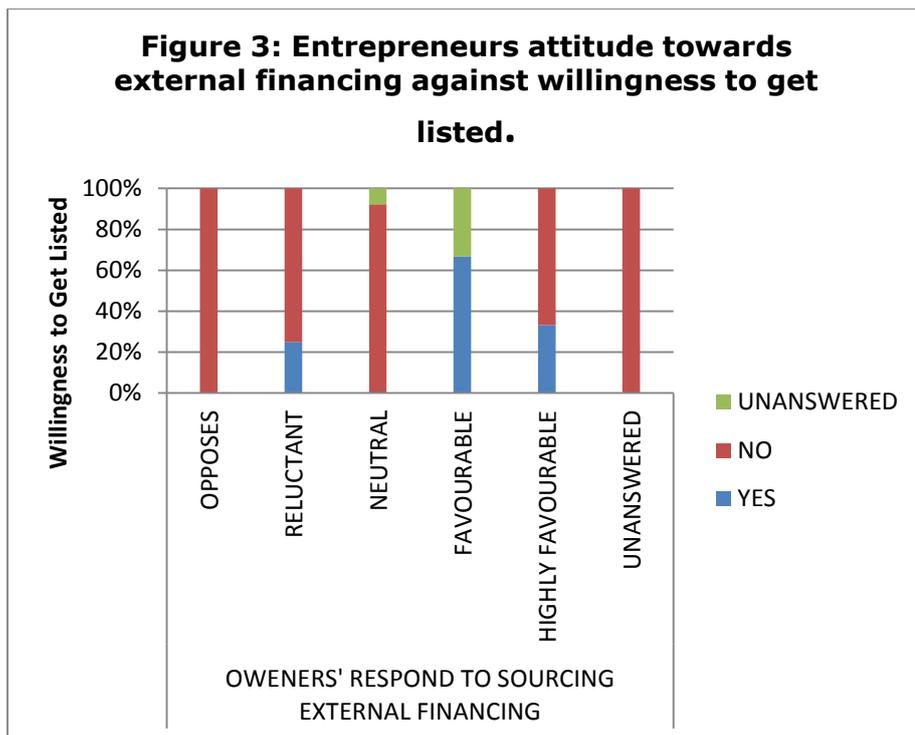


Figure 3: Entrepreneurs attitude towards external financing against willingness to get listed

The two tables have been summarized in Figure 3 which revealed that out of the respondents who were neutral towards sourcing external finance none of them was willing to get listed on the GAX. And out of the respondents who answered highly favourably to sourcing external finance only 33% of them were also willing to list on the GAX. Since the equity risk aversion of owners of SMEs in this research has been proven to be high by their unwillingness to go public by listing on the GAX, it possess as a threat to the successful running of GAX (Mason and Kwok, 2010).

However, GAX officials can focus on the huge number of entrepreneurs who had neutral attitude towards sourcing external financing and provide them with attractive incentives to encourage them list on the GAX.

4.4.2 Factors that Motivate SMEs to get listed

The value that SMEs place on incentives provided by SME equity finance programmes motivates SMEs to either accept or reject these programmes as explained by the incentive theory of motivation. According to literature, for people to accept a program they must be aware of the benefits the program has to offer and these benefits must be of valuable to them (Guiso and Jappelli, 2005). Factors such as the flexibility of admission process and attainability of requirement motivate entrepreneurs and SME owners to accept an alternative market or equity finance market (Rosseau, 2006).

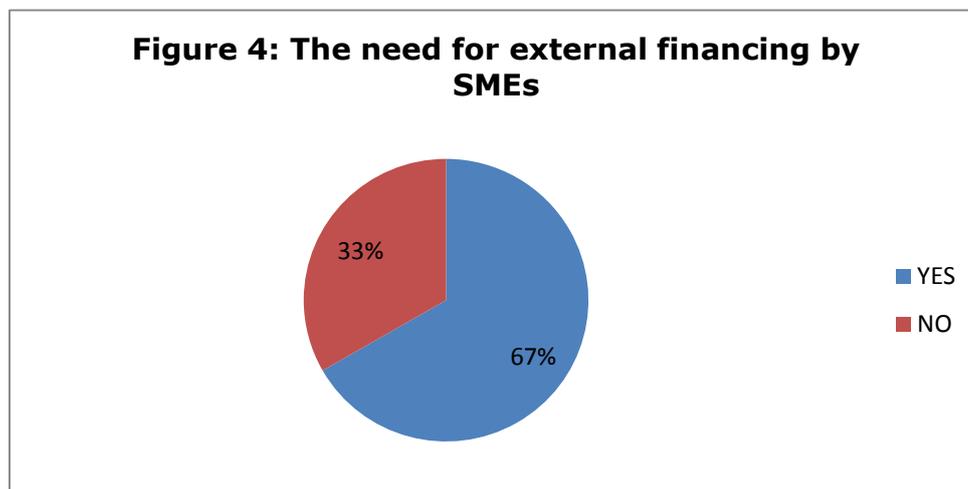


Figure 4: The need for external financing by SMEs

The researcher asked respondents if they needed external financing to confirm the need for an alternative market as expressed by GAX officials. All the respondents of the research answered this question and the result is shown in Figure 4. From Figure 4, 67% of the respondents were in need of external financing and 33% said they were not in need of external financing. The result proved that indeed SMEs need external financing hence the need for an alternative market in the country. This is a form of incentive to SMEs because the market is targeted at satisfying their need.

The insight from this information is that majority of SMEs are potential firms to list on the GAX because of their need for external financing. Therefore, the services provided by the GAX can be designed to meet the specific needs of these firms. It is also an indication that there is market for the GAX hence it has to be maintained.

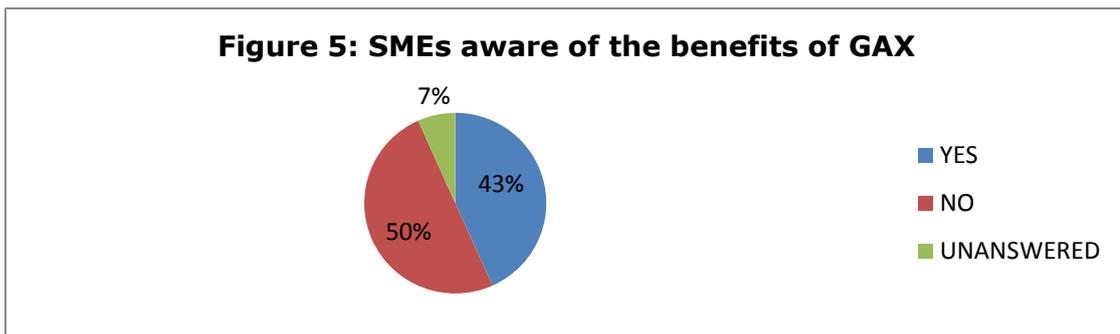


Figure 5: SMEs aware of the benefits of GAX

Table 2: Need for external financing against awareness of benefits of the GAX

		Aware of benefits of the GAX			Total
		Yes	No	Unanswered	
Need For External Financing	Yes	10	9	1	20
	No	3	6	1	10
Total		13	15	2	30

Table 2: Need for external financing against awareness of benefits of the GAX

Now that it has been identified that the GAX is targeted at a particular need of SMEs, the researcher went ahead to find out if SMEs were aware of the

benefits that the GAX had to offer. This is because according to literature, awareness influences listing. In Figure 5 above, out of the thirty respondents, 50% of the respondents were not aware of the benefits that the GAX could offer to their businesses whilst 43% were aware of the benefits and 7% did not answer the question. This means that a large number of the respondents were not aware of the benefits the GAX had to offer. This confirms the officials' response of not being able to reach a large number of SMEs. It also explains why they did not want to list on the GAX as shown in Figure 2. In table 2, out of the number of respondents that need external financing, only half (i.e. 50%) of them were aware of the benefits of GAX. Knowing that awareness of benefits influences listings, it means that the other half who were not aware of these benefits were unlikely to list on the GAX. This reveals that there is a problem with information spread about the GAX and this according to literature does not attract listings on the GAX.

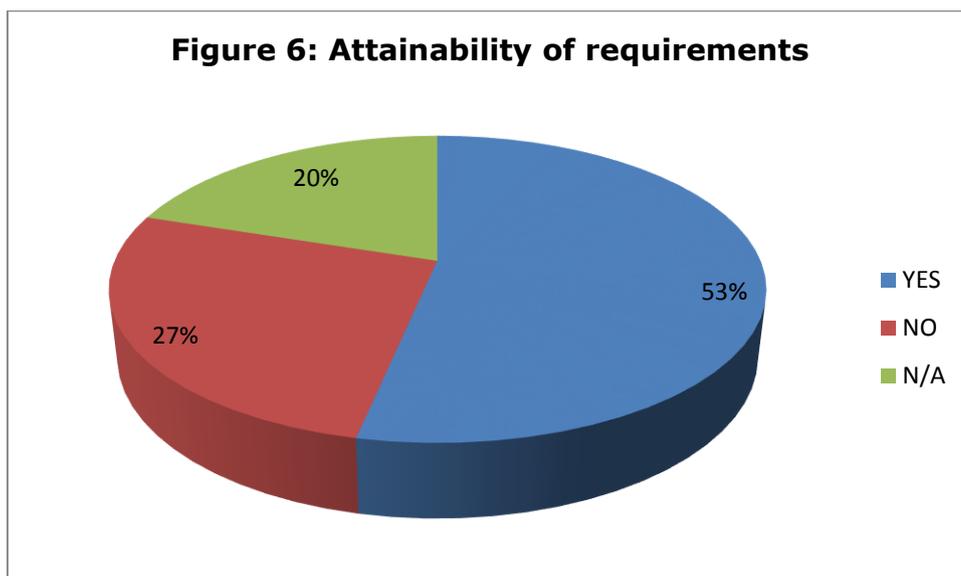


Figure 6: Attainability of GAX requirements

Also in Figure 6, the researcher asked respondents whether they find the requirement of GAX, especially the minimum stated capital requirement, as attainable. 53% of the respondents acknowledged that they could achieve the requirements of the GAX which is an encouraging response towards the success of GAX. This implies that the respondents were motivated by the benefits that GAX had to offer, because they found the listing requirements particularly the minimum stated capital to be achievable. However other requirements that were identified not to be motivating included having a minimum of 20 public shareholders, having a well-structured business plan, keeping proper books of account and preparing and reporting financial performance of the business. The reason for these requirements being disturbing is that they come at high cost which the SMEs are not ready for.

4.4.3 SME Participation in Alternative Stock Markets

Research done by Guiso and Jappelli revealed that there is a positive relationship between awareness and stock market participation (Guiso and Jappelli, 2005). In this study, it is the responsibility of GAX regulators to ensure that information about what the program is and its benefits reaches their target through proper spread of information and the use of acceptable channels of communication by its targets. It is only when information about the program reaches SMEs and entrepreneurs that they will be aware of the GAX and communicate their acceptance through taking steps to list on the exchange (Migiro and Wallis, 2006). Interview with regulators of the Ghana Stock Exchange revealed that they have adopted face to face and the use of print ads as means of spreading information about the GAX. Hence the researcher asked SME operators about the means of communication that

was mostly preferred to determine if they are in line with what has been adopted by GSE.

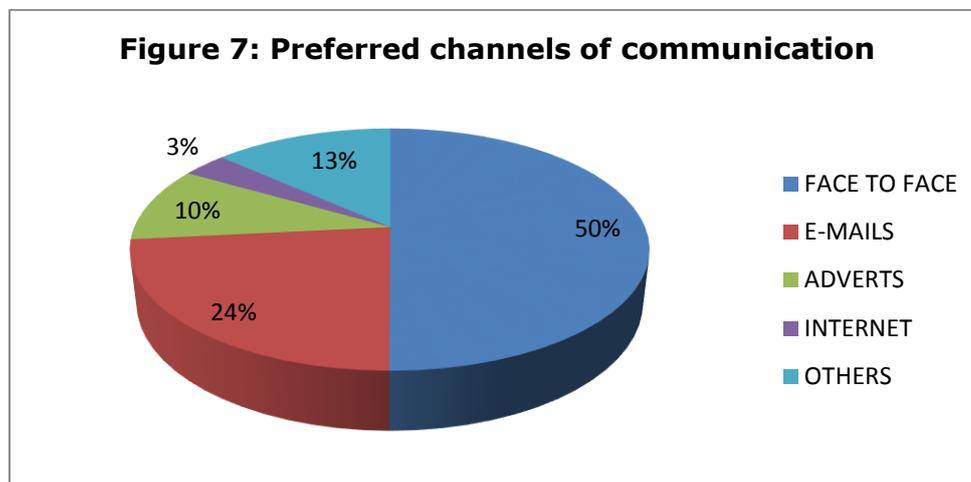


Figure 7: Preferred channels of communication

The result was that 50% of them prefer face to face, 24% prefer E-mails, 13% prefer other means particularly phone calls, 10% prefer adverts and only 3% prefer the use of the internet (see Figure 7). This reflects the information gotten from the literature review that most SMEs prefer face to face form of communication to the use of more technological means such as the internet (Migiro and Wallis, 2006). Though this information reveals that GAX officials have adopted the right channel of communication, it is not ideal because information spread is limited through that means. Face to face communication makes it difficult to reach a large number of SMEs as compared to the use of internet, TV and billboard adverts and the media. This was justified when the researcher asked respondents how they got to know of the GAX. Among the 30 respondents only 1 got to know of the GAX from interaction with GAX officials (see Table 3 below). This means that if GAX officials continue to stick to the personal or face to face interaction as its main channel of spreading information about the GAX, it will take a long

time for most SMEs to get informed. If SMEs are not informed about the market they will not list and this will renders the GAX inactive as explained by the theory of management. This will result in the delay if not failure of the GAX to run successfully.

Table 3: How SMEs got to know Of the **GAX**

	Frequency	Percent	Valid Percent	Cumulative Percent
Friends and Family	12	40.0	40.0	40.0
GSE Officials	1	3.3	3.3	43.3
Internet	5	16.7	16.7	60.0
Others	4	13.3	13.3	73.3
Unanswered	7	23.3	23.3	96.7
Print Ads	1	3.3	3.3	100.0
Total	30	100.0	100.0	

Table 3: How SMEs got to know of the GAX

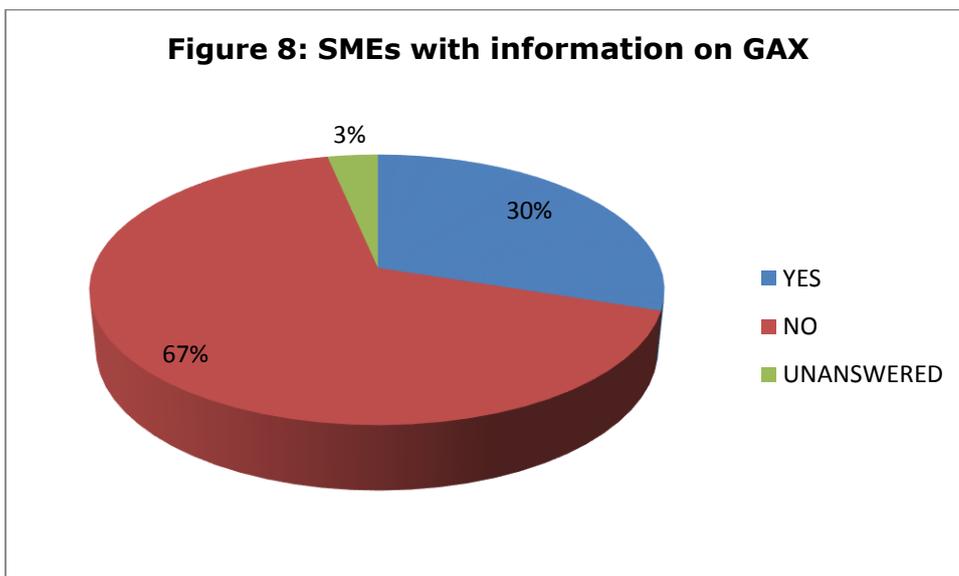


Figure 8: SMEs with information on the GAX

The researcher went ahead to asked respondents if they had information about the GAX. Result from the study also revealed that 30% of the respondents were informed about the GAX whilst 67% were not (see Figure 8). This result is expected because of the channels of communication that GSE has adopted which makes it impossible for them to reach a large number of SMEs and entrepreneurs at a goal.

Table 4: Level of awareness against access to information on the GAX

		Do You Have Access to Information on the GAX			Total
		Yes	No	Unanswered	
Level of Awareness	Not Aware	0	7	1	8
	Less Aware	1	3	0	4
	Fairly Aware	5	9	0	14
	Aware	1	1	0	2
	Highly Aware	2	0	0	2
Total		9	20	1	30

Table 4: Level of awareness against access to information on the GAX

Table 4 above tells us the number of SMEs that have information on the GAX against their level of awareness of the GAX. The response shows that only 30% (9) of the respondents have information on the GAX. Out of the 9 that have information 5 are fairly aware, 1 is aware and 2 are highly aware of the GAX. The low level of awareness of the program is a reflection of the non-listing of SMEs on the market.

CHAPTER FIVE: CONCLUSION AND RECOMMENDATIONS

In this chapter findings will be geared towards satisfying and answering objectives and questions of this study respectively.

5.1 Conclusion

From information gathered from this research, Small and Medium Enterprises (SMEs) in Ghana need external financing to support their activities but as to whether they are ready to take advantage of an alternative market is the issue for consideration.

The research revealed that factors that influence listing of companies on alternative market in general emanated from both the demand and supply sides of the market. On the supply side, one main factor that can influence listing is the spread of information. According to literature, entrepreneurs can only accept an equity financing program when they have access to information on the program. This helps the entrepreneurs identify valuable incentives which motivate them to list on the market. Also the attractiveness of an alternative market is created through providing incentives and making listing requirements flexible and failure for policy makers of alternative market to satisfy these factors impacts heavily on listings on the market. On the demand side, the risk aversion of entrepreneurs, their willingness to go public and ability to meet requirements influences listings on alternative markets.

The study further revealed that challenges facing the GAX is geared towards awareness of the GAX and its benefits to SMEs. Also, some unfavourable government policies and the attitude of entrepreneurs towards accessing equity financing also pose as threats to the market.

Officials of GAX admitted that there were many companies and entrepreneurs who have no ideas that GAX existed. However, because of financial constraints the GAX is unable to engage the media and other communication channels to spread information about the market. It is therefore not surprising that 67% of the respondents were not aware of the GAX and its benefits. Another challenge discovered was that Ghana, unlike other developing countries did not have rules that mandated foreign companies to go public after specified years of operation. The existence of such rules would have caused the countless foreign companies based in the country to list on the market. Though SMEs involved in this attested to the fact that they needed equity financing and that the GAX was necessary, they were unwilling to invite the general public to invest in their business. Reason being that SME owners are not ready to share ownership of their businesses and would rather like to pass ownership to their children. Others also claim to lack confidence in the market and cannot risk listing their business on the market.

On the other hand, the Ghana Alternative Exchange (GAX) officials in this research revealed that cost does not contribute to the inability of the GAX to attract listings and that the minimum stated capital of GHS250,000 is achievable. Interestingly SMEs involved in the study agreed that the stated minimum capital required by the GAX was achievable because most of them were currently operating with more than GHS 250,000 as stated capital. The study also revealed that the ability for alternative market in developing countries to attract listings is mostly influenced by the spread of information, cost associated with listing and appropriate use of communication channels to reach entrepreneurs and SME operators in the

country as revealed by the study. From the information gathered from literature, most alternative markets in developing countries are not able to attract listings because the targets of the market are either not aware of the existence of the market or they do not have access to the main requirements of the market and benefits that the market has to offer. This problem arises because the main channel used for communicating the existence, requirements and benefits or incentives that the market has to offer hardly reach a large number of people. The study also revealed that though face to face form of communicating and spreading information was the most acceptable form of communication for SMEs in developing countries, officials of alternative markets that stick to it find it difficult to reach their target group adopting that medium of communication. As a result of poor awareness, entrepreneurs in developing countries lack confidence in alternative markets.

Considering information gathered from literature, GAX officials and SMEs in Ghana, it is evident that Ghana, like other developing countries, faces the problem of poor spread of information and lack of awareness of requirements and incentives that an alternative market has to offer in order to attract listings. However, the GAX should not be scrapped because there is room for it to attract listings because it presents valuable incentives and achievable requirements to SMEs and entrepreneurs.

5.2 Recommendations

From the study, the channels for spreading information adopted by the GAX has been proven inefficient causing low levels of awareness among SMEs. One most important activity that has to be undertaken by GAX officials is to educate the public on the importance of the exchange and properly

spread information to boost the confidence of both investors and SMEs to patronise the exchange. Officials of the GAX should adopt TV and billboard adverts as a medium to spread information about the GAX. Also, GAX officials could engage the services of trade unions or organizations such as the National Board for Small Industries (NBSSI) to spread information about the GAX. According to the study these channels of communication helps reach large number of audience. Also, the success of the Nigerian alternative market was fostered by these channels.

The research revealed that 43% of entrepreneurs had a neutral attitude towards sourcing external finance and GAX officials can focus on convincing this segment of their target group to access funding from the GAX. Also, firms that are in the process of getting listed should advertise the program to attract investors. Since adverts reach a large number of SMEs easily and is also a preferred channel of communication for SMEs, GSE could include it in methods of spreading information and creating awareness.

The Ghana Alternative Exchange (GAX) though is facing some challenges in attracting listings should not be scrapped because there are SMEs and start-up businesses that need their services but it is up to GAX officials to identify these entrepreneurs and educate them on the importance of GAX to the growth of their businesses.

BIBLIOGRAPHY

- African Press Agency. (2013, April 24). Nigeria Bourse Launches Alternative Market to Aid SMEs. In *StarAfrica.com*. Retrieved September 26, 2013, from <http://en.starafrika.com/news/nigerian-bourse-launches-alternative-market-to-aid-smes.html>
- Andoh, D. (2013, September 6). Three SMEs Pencilled for Alternative Market. In *Business and Financial Times*. Retrieved September 26, 2013, from http://www.thebftonline.com/index.php?option=com_content&view=article&id=4488:three-smes-pencilled-for-alternative-mkt&catid=9:news&Itemid=207
- Avortri, C., Bunyaminu, A., & Werekku, T. B. (2013). Factors That Hinder Access to Credit by Small and Medium Scale Enterprises despite the Financial Sector Liberalization in Ghana. *International Journal of Management Sciences*, 1(10), 386-390. Retrieved April 11, 2014, from <http://www.rassweb.com/wp-content/uploads/PDF/IJMS/Vol-1/Issue-10/Paper3.pdf>
- Boateng, K. (2012, July 5). Standard Chartered Bank: Celebrating 10 years of SME Banking in Ghana with Renewed and Strengthened Customer Offering. In *Standard Chartered Bank*. Retrieved November 21, 2013, from http://www.standardchartered.com.gh/latest-news/en/_pdf/Press%20Release%20-%20SME%20-%20CVP.pdf
- Business World Intelligence. (2014, March 19). Will ASeM Breathe Life into Nigeria [Capital Market? In Business World](#). Retrieved March 21, 2014, from <http://businessworldng.com/new/?p=8250>

- Cherry, K. (2013). The Incentive Theory of Motivation. In *About.com-Psychology*. Retrieved October 30, 2013, from <http://psychology.about.com/od/motivation/a/incentive-theory-of-motivation.htm>
- Garcia-Perez-de-Lema, D., Durendez, A., & Marino, T. (2011, October). A Strategic Decision for Growth, Financing and Survival of Small and Medium Family Businesses: Going Public in an Alternative Stock Market (MAB). *Economics and Finance Review*, 1(8), 4-31. Retrieved October 7, 2013, from <http://www.businessjournalz.org/articlepdf/efr1801o18.pdf>
- Ghana Government eServices Portal. (2011). Business. In *Services*. Retrieved September 26, 2013, from <http://www.eservices.gov.gh/Pages/Empowering-SMEs-in-Ghana-for-Global-Competitiveness.aspx>
- Ghana News Agency. (2011, September 11). Many Registered Businesses are Dormant-Registrar-General's Department. In *Ghanaweb*. Retrieved September 25, 2013, from <http://www.ghanaweb.com/GhanaHomePage/NewsArchive/artikel.php?ID=218470>
- Ghana Stock Exchange. (2006). Listing Rules. In *Ghana Stock Exchange*. Retrieved September 25, 2013, from <http://www.gse.com.gh/privatecontent/File/LISTING%20RULES%20-%20for%20web%201-40.pdf>
- Ghana Stock Exchange. (2013). *Ghana Alternative Market (GAX) - Rules* (pp. 2-23). Accra, Ghana: Author.

- Ghana Stock Exchange. (2013). *Ghana Alternative Market (GAX) -SME Listing Support Fund* (pp. 2-8). Accra, Ghana: Author.
- Ghana Stock Exchange. (2013). *Ghana Alternative Market (GAX) -What is Ghana Alternative Market?* (pp. 1-9). Accra, Ghana: Author.
- Ghana Stock Exchange. (2013, May 3). What is Ghana Alternative Market? In *Ghana Stock Exchange*. Retrieved September 24, 2013, from <http://www.gse.com.gh/index1.php?linkid=21&archiveid=1265&page=1&adate=03%2F05%2F2013>
- Greenberg, J. (2010). *Managing Behaviour in Organization* (fifth ed., p. 162). Upper Saddle River, NJ: Pearson Education Inc.
- Guiso, L., & Jappelli, T. (2005, December 29). Awareness and Stock Market Participation. In *Social Science Research Network*. Retrieved October 3, 2013, from http://papers.ssrn.com/sol3/papers.cfm?abstract_id=871646
- Hartman, S. W. (2009). Management Theory. In *www.aom-iaom.org*. Retrieved October 30, 2013, from http://www.aom-iaom.org/article_hartman.pdf
- Investopedia. (2009, February 26). What are the Advantages and Disadvantage of Companies Going Public? In *Investopedia: Frequently Asked Questions*. Retrieved October 4, 2013, from <http://www.investopedia.com/ask/answers/06/ipoadvantagedisadvantage.asp>
- Kadariya, S., Subedi, P. P., Joshi, B., & Nyaupane, R. P. (2012). Investor Awareness and Investment on Equity in Nepalese Capital Market. *Banking Journal*, 2(1), 1-14. Retrieved November 4, 2013

- London Stock Exchange. (2010). A Guide to AIM. In *AIM-London Stock Exchange*. Retrieved September 28, 2013, from <http://www.londonstockexchange.com/companies-and-advisors/aim/publications/documents/a-guide-to-aim.pdf>
- London Stock Exchange. (2013). Welcome to aim- Where Ideas Take Off. In *London Stock Exchange*. Retrieved September 28, 2013, from <http://www.londonstockexchange.com/companies-and-advisors/aim/aim/aim.htm>
- Lynn, C. E., & M, E. (2013, September 30). Exploratory Design. In *Lynn University Library*. Retrieved December 4, 2013, from <http://lynn-library.libguides.com/researchmethods8>
- Mason, C., & Kwok, J. (2010). Investment Readiness Programmes and Access to Finance: A Critical Review of Design Issues. *OECD*, 3-21. Retrieved November 4, 2013
- Migiro, S. O., & Wallis, M. (2008, March). Relating Kenya's Manufacturing SMEs' Finance Needs to Information on Alternative Source of Finance. *South Africa Journal of Information Management*, 8(1), 1-14. Retrieved October 8, 2013
- Mishra, A. (2011, April 24). Acceptance Theory in Management by Chester Barnard. In *MBA netbook.co.in*. Retrieved October 30, 2013, from <http://www.mbanetbook.co.in/2011/04/acceptance-theory-in-management-by.html>
- Mugwe, D. (2013, August 27). Kigali bourse waives capital requirement for SMEs listing. In *Daily Nation- The East Africa*. Retrieved September 27, 2013, from <http://www.theeastafrican.co.ke/news/-/2558/1970452/-/jog68vz/-/index.html>

- Myjoyonline.com. (2013, May 13). Alternative stock Market for Small Business Take off. In *Modern Ghana*. Retrieved September 24, 2013, from <http://www.modernghana.com/news/463579/1/alternative-stock-market-for-small-business-takes-.html>
- Mwarari, M. M. (2013, March). Factors Influencing Listings of Kenyan SMEs on the Securities Market for Capital Raising Opportunities. *European Journal of Management Science and Economics*, 1(2), 99-119. Retrieved March 21, 2014, from http://www.marynsam.co.uk/uploads/1/4/0/7/14075053/full_text_factors_influencing_listing_of_kenyan_smes.pdf
- Nairobi Stock Exchange. (2013, January 22). Nairobi, 22nd JANUARY 2013: Nairobi Securities Exchange (NSE) Launches The Growth Enterprise Market Segment (GEMS). Retrieved September 27, 2013, from <https://www.nse.co.ke/>
- Onyema, O. (2013, April 23). The Alternative Securities Market of the Nigerian Stock Exchange. In *The Nigerian Stock Exchange*. Retrieved April 12, 2014, from http://www.nse.com.ng/MarketNews/CEOs%20Presentation/CEO%20ASeM%20Launch%20Presentation_23042013.pd
- Pagano, M, Panetta, F., & Zingales, L. (1998). Why do Companies Go Public? An Emperical Analysis. *The Journal of Finance*, 1, 27-30.
- RadioXYZonline.com. (2013, November 29). GAX to list Samba, Meridian Marshall. Retrieved March 17, 2014, from <http://edition.radioxyzonline.com/pages/business/11292013-1239/16582.stm>

- Rousseau, S. (2006, May 31). The Competitiveness of Canadian Stock Exchanges: What Can We Learn from the Experience of the Alternative Investment Market? In *Task Force to Modernize Security Legislation in Canada*. Retrieved October 8, 2013, from [http://www.tfmsl.ca/docs/V5\(3\)%20Rousseau.pdf](http://www.tfmsl.ca/docs/V5(3)%20Rousseau.pdf)
- Sarpong, F. Y. (2013, September 6). Microfinance Companies Reaping Heavily from Small Businesses. In *GhanaWeb*. Retrieved October 28, 2013, from <http://www.ghanaweb.com/GhanaHomePage/NewsArchive/artikel.php?ID=284888>
- Szabó, T. (2012). *Effects of Different Project Management methods On Team Performance* (Master's thesis). Retrieved October 30, 2012, from http://is.muni.cz/th/256579/film/Effects_of_Different_Project_Management_Methods_on_Team_Performance_Oblu6.pdf
- This Day Live. (2014, January 15). Resuscitating the Nigerian Stock Exchange's Ailing ASeM. In *This Day Live-News*. Retrieved April 12, 2014, from <http://www.thisdaylive.com/articles/resuscitating-the-nigerian-stock-exchange-s-ailing-ase/168805/>
- Watson, J. (2006, January). External Funding and Firm Growth: Comparing Female and Male Controlled SMEs. *Venture Capital: An International Journal of Entrepreneur Finance*, 8(1), 33-49. Retrieved October 8, 2013, from <http://www.tandfonline.com/doi/pdf/10.1080/13691060500433512>

Westenberg, D. A. (2009, October). Ready, Set, Go Public-The 10 Things You Need to Do Now. In *Xconomy/ Boston*. Retrieved October 1, 2013, from http://www.ipoguidebook.com/files/upload/Xconomy_Westenberg.pdf

Winful, E. C., & Sarpong, D. J. (2012, September 26). The Performance of Ghana Stock Exchange for the Period 2000 to 2009. *African Journal of Business Management*, 6, 10341-10355. Retrieved from <http://www.academicjournals.org/Ajbm/PDF/pdf2012/26Sept/Winful%20and%20Sarpong%20Jnr.pdf>

Appendix 1:

Consent Form

Ashesi University College

Capstone project: Thesis

Consent form for thesis

Research topic: Feasibility of Ghana Alternative Exchange (GAX)

Purpose of research: The research is designed to help the researcher get a better understanding of how well the alternative stock market is applicable in Ghana and to investigate measures that can be put in place to make the market successful in Ghana.

What you will do in this research: The research method will require you to partake in a 15 minutes interview or fill a questionnaire to enable the researcher identify variable that a successful alternative external finance program should include.

Benefits: At the end of the study, the researcher will provide an explanation of findings at a presentation where representatives of your organizations will be invited so they can collect information on what can be done differently to ensure the success of an alternative financing program.

Confidentiality: Your participation of this research will be kept confidential; data will be sealed in an envelope and stored. Your identity will not be stored after the research is completed.

Participation and withdrawal: Your participation is completely voluntary and you may choose to withdraw without any form of penalty or loss of

benefits. You may withdraw by informing the researcher that you no longer want to participate.

To contact the researcher: If you have any questions about the research, please contact Mercy Tetteh, 0267269919, mercy.tetteh@ashesi.edu.gh. You may also contact the faculty member supervising the study: Mr Anthony Essel-Anderson, 0242806155, aeanderson@ashesi.edu.gh.

Agreement:

The nature and purpose of this research have been sufficiently explained and I agree to participate in this study.

Signature: _____ Date

Name (Print): ____

Appendix 2:

INTERVIEW GUIDELINES FOR OFFICIALS OF GHANA STOCK EXCHANGE

Research topic: Feasibility of Ghana Alternative Exchange

The questions are designed to seek information about how feasible GAX is. Information provided will be treated as confidential and used for academic purposes only. Participation is voluntary and participants are free to discontinue participation. Participants can decide not to answer certain questions when it may be uncomfortable to give such information.

1. Is there something more to the definition of an alternative market apart from it being an SME finance platform?
2. Why was the Ghana alternative exchange launched?
3. Which entities are its target group?

4. Which communication channels are used to spread information about the alternative market?
5. How is awareness of the market created?
6. How many SME operators were engaged during the designing of the program?
7. In your opinion which of the benefits of the GAX are most attracting?
8. On what basis was the stated minimum capital requirement of the exchange drawn?
9. Did the exchange do a research to find out how many SMEs in Ghana actually can meet the GHS 250,000 minimum stated capital requirement?
10. Can you furnish me with the list?
11. How has the current performance of the market deviated or been consistent with expectation of how the market should perform? That is, did you expect that firms will be slow in accepting and listing on GAX as the situation is now? If yes, what are your reasons for having such expectations?
12. How is the growth potential of start-ups measured by GAX rules?
13. In your opinion which of the requirements of the exchange can SMEs and start-ups in Ghana easily meet?
14. What is your take on the current performance of the market?
15. What can be done differently to ensure the success of the market?

Appendix 3:

QUESTIONNAIRE COMPLETED BY SME OPERATORS AND ENTREPERNEURS

Please this question is designed to seek information about the feasibility of Ghana alternative exchange. The information gathered will be treated as confidential and for academic purposes only.

The questionnaire is designed to be completed in 15 minutes. Participation is voluntary and participants are free to discontinue participation.

Some question will require a yes or no response and others will have five likert items to select from. Respondents should please circle the option that best answers the question.

For any kind of assistance during the completion of the questionnaire, participants could kindly seek help from the researcher.

SECTION A-

1. GENDER: MALE FEMALE

2. Name of organization:

3. Position in organization:

4. What kind of business are you operating?
 - a. Manufacturing b. Retailing c. Distribution d. Service e. other.....

5. Is the business registered? YES NO

6. Is there a fixed structure that regulated the affairs of the business?
YES NO

7. Does the business need external financing? YES NO

8. Is the business currently using any form of external financing? YES NO

9. On a scale of 1 to 4 where 1 means negatively and 5 means highly favourable, how does owner(s) respond to sourcing equity financing”?

1. 2. 3. 4. 5.

SECTION B

1- Not aware 2-Less aware, 3- aware, 4- fairly aware and 5- highly aware and it follows in similar order for questions with five likert items.

10. How often do you use the following sources of information to access finance?

Family and Friends: 1 2 3 4 5

Customers: 1 2 3 4 5

Internet: 1 2 3 4 5

Consultants: 1 2 3 4 5

List other sources of information if any:

11. How easily do you have access to information on sources of finance?

1 2 3 4 5

12. How easily do you have access to information concerning financial institutions?

1 2 3 4 5

16. What is your level of Awareness?

1. 2. 3. 4. 5.

17. How did you get to know of GAX?

A. Friend and family

B. Consultants

C. Customers

D. Internet

Other means:

18. Do you have access to information on the Ghana Alternative Stock Market (GAX)?

YES NO

19. What is your level of accessibility of information on GAX?

1. 2. 3. 4. 5.

20. Are you aware of some of the benefits the GAX has to offer?

YES NO

21. How would you rate those benefits to your business?

1. 2. 3. 4. 5.

22. In your opinion are the regulations of the GAX achievable?

YES NO

23. In your opinion which of the regulations of the GAX are the most achievable? List them

.....
.....
.....

24. In your opinion which of the regulations of the exchange are the least achievable? List

.....
.....
.....

25. Does your firm have plans on listing on the exchange?

YES NO

26. If you answered yes to question 25 give reasons including when you will like to get listed and if your answer was no give your reasons as well.

.....
.....
.....
.....

27. Are you aware that the minimum stated capital requirement of GHS 250,000 is a post listing requirement?

YES NO

If your answer to question 27 is YES, do not answer question 28.

28. If you were aware of this information will this have affected your decision to list on the GAX?

YES NO

29. How will you rate the importance of the GAX to your business?

1. 2. 3. 4. 5.

30. 17. How will you rate the significance of the Ghana alternative exchange (GAX) to SMEs in the country?

1 2 3 4 5

31. What do you think can be done to improve on the current state of the GAX and also to attract you firm?

.....
.....
.....
.....

Thank you for your time and energy.

Your effort and contribution towards this study is highly appreciated.

Researcher: Mercy Tetteh (0267269919)