ASHESI UNIVERSITY COLLEGE

AN INVESTIGATION INTO THE FACTORS THAT ACCOUNT FOR THE LOW EQUITY LISTING ON THE GHANA STOCK EXCHANGE

BENEDICTA ANGELEY AKO

2014

ASHESI UNIVERSITY COLLEGE

AN INVESTIGATION INTO THE FACTORS THAT ACCOUNT FOR THE LOW EQUITY LISTING ON THE GHANA STOCK EXCHANGE

BENEDICTA ANGELEY AKO

Dissertation submitted to the Department of Business Administration, Ashesi University College In partial fulfillment of Science degree in Business Administration

APRIL 2014

Candidate's 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: Benedicta Angeley Ako

Date: 16th April 2014

Supervisor's Declaration

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

Supervisor's

Signature…….....

Supervisor's Name: Mr. Anthony Essel -Anderson

Date: 16th April 2014

Acknowledgement

My profound gratitude goes to my supervisor, Mr. Anthony Essel-Anderson, for his time, guidance and efforts to help me finish this project successfully. I would also like to thank the Head of Department, Mr. Anthony Ebow Spio for his support and words of encouragement during this research.

To Dr. Sena Agyepong, Akua Oppong-Nkrumah and Mr. Alex Asiedu, who encouraged me and contributed immensely to this work. I am very grateful for your time and efforts dedicated to the success of this project.

This research would not have been a success without the help of respondents. I appreciate the help, time and patience you had for me during the research.

I dedicate this work to my mother, siblings and friends, Joana, Emefa, Korlekuor, Miriam, Eyram, Kojo Owusu-Adjei, and Nana Kojo Antwi for their love, support and prayers. Most importantly to my uncle, Mr. Bernard Appiah Gyebi, for believing in me and giving me an opportunity to experience a world class education.

God bless you all for your commitment to the success of my work.

I say a very big thank you.

Abstract

Ghana Stock Exchange is performing well and with the development of the private sector, more firms would need long-term capital to expand operations, and the exchange could be a good source of raising long-term capital for expansions. The purpose of this research is to explore the factors that account for the low equity listing on the Ghana Stock Exchange and measures that can be employed to attract firms to list. This study is exploratory in nature and data was collected through interviews and questionnaire distribution.

Results from the research indicate that the reason why firms are not listed could be attributed to the lack of education regarding activities on the stock market, fear of losing control of the business to the public, cost concerns, and the unattractiveness of the exchange. Data from this study also showed that firms have plans to list if certain measures are employed. These measures include an increase in public education, active promotion of the exchange by the Government, and cost reductions.

It is recommended that, more education is needed to inform the public about activities of the stock market. Also, government should actively promote the activities of the exchange by offloading state owned enterprises to the exchange rather than to strategic investors. Ghana Stock Exchange can also integrate with other African exchanges to give listed firms greater access to funds.

Key words: Ghana Stock Exchange, equity listing, unlisted firms.

Table of Contents

List of Acronyms

GSE – Ghana Stock Exchange

SEC – Securities and Exchange Commission

GSE-CI – Ghana Stock Exchange Composite Index

GSE-FI - Ghana Stock Exchange Financial Index

GAX - Ghana Alternative Market

Company A –Business fits into the Energy Sector with seven years of existence.

Company B–Business fits into the Banking sector with forty-nine years of existence.

Company C–Business fits into the insurance industry with thirty years of existence.

Company D–Business fits into the manufacturing industry with twenty years of existence.

Company E–Business fits into the manufacturing industry with six years of existence.

Company F–Business fits into the Banking sector with seven years of existence.

Company G–Business fits into the Energy sector with twenty years of existence.

Company H–Business fits into the manufacturing sector with hundred years of existence.

Company I–Business fits into the telecommunications industry with five years of existence.

Company J - Business fits into the Environmental (waste management) sector with seven years of existence.

Table of figures

Chapter 1

Introduction

1.1 Background to the study

In recent times, the fast growth of the private sector has caused a decrease in the level of state interventions and has contributed to the development of the Ghanaian economy with more businesses developing. "Ghana's notable economic growth rate of 8 percent over the past five years has been supported by strong improvements in economic freedom, with reforms focused on spurring private sector–led development" (The Heritage Foundation, 2013).

With the growth of the private sector and the emergence of new businesses, the capital market serves as a good source of raising long term capital for operations and expansions. A capital market is a market in which individuals and institutions trade financial assets (ValueClick Inc., 2013). Both public and private sector organizations also often sell securities in the market in order to raise funds. The capital market is made up of the bond and stock market. A stock market is an avenue for trading shares in publicly listed companies (PLCs). Ghana's stock market is the Ghana Stock Exchange (GSE).

1.2 Overview of the Ghana Stock Exchange

The Ghana Stock Exchange was incorporated in July 1986 but operations officially began in November 1990 (GSE, 2013). There are thirty-four (34) equity listed firms on the exchange with a total market capitalization of about GH¢60,980.29 million as at December, 2013. Until now, the Ghana Stock Exchange has remained the only exchange in Ghana. The main index is the GSE

composite index, a capitalization weighted index, which includes all ordinary shares listed on the GSE with the exception of those companies whose shares are listed on other exchanges, for instance, Tullow Oil (TLW). Securities traded on the exchange include equities and both corporate and government bonds. Criteria for listing include capital adequacy (minimum stated capital of GHC 1 million for the main exchange and GHC 250,000 for the GAX post listing), profitability, spread of shares, and more than three years of existence, among others.

"The performance of the exchange has been very impressive in recent times despite the uncertainties in the global economy which were characterized by the slow recovery of the 2008 recession of the American economy and the current debt crisis in the euro zone" (GSE, 2011). The GSE Composite Index had a return of 58% in 2008, minus 47% in 2009 as a result of the recession, 32% in 2010, minus 3% in 2011 in an attempt to recover from the recession and 24% in 2012. Currently, from January to July 2013, the GSE-CI has improved tremendously with a high return of 61.39% (GSE, 2013).

The GSE recorded a few negative returns in both 2009 and 2011 due to a number of factors. These factors include, debt problems in the Eurozone, depreciation of the Ghana Cedi and interest rate hikes on government securities. However, the exchange continuously makes efforts to improve the performance of the index which is evident considering the high return (61.39%) reported in the year 2013. Some major changes made to improve the performance of the exchange includes, an automated trading regime, the extension of trading hours from the existing 09.30 hours GMT to 13.00 hours

GMT, to a new 09.30 hours GMT to 15.00 hours GMT, and the introduction of the Ghana Alternative Market (GAX) to give Small Scale and Medium Enterprises the opportunity to raise capital from the stock market. "The aim of these modifications is to afford dealers increased contact hours with their clients during the trading day and also to afford non-resident investors in time zones different from Ghana, greater opportunity to reach out to their local brokers"(GSE, 2013). Ghana Stock Exchange was ranked as the best performing exchange in West Africa as at 2013 by the Databank quarterly market research, which ranks stock markets in Africa based on dollar returns to investors.

The manufacturing and brewing sectors currently dominate the exchange and then the banking sector while other listed companies fall into the insurance, mining and petroleum sectors (GSE, 2013). Most of the listed stocks on the GSE are stocks of Ghanaian companies, however, there exist some multinational company stock too such as Tullow Oil Plc. Equity listed companies recorded significant price increases during the first half year, January to July 2013. According to the GSE (2013), out of the 34 companies listed, CAL's stock price increased by 194 per cent and that of EGL by 191 percent as at the quarter year end, January to July 2013, which in effect shows the impressive performance of listed firms on the exchange.

In spite of the achievements of the stock market, many firms in Ghana do not float part of their shares on the exchange causing the underutilization of the exchange. The Ghana Stock Exchange is said to be underutilized because it has only thirty-four (34) equity listed firms as compared to other exchanges in

equally developing countries such as the Nairobi Stock Exchange in Kenya. The Nairobi Stock Exchange, despite its location in a developing country has sixty-three (63) equity listed firms.

Ghana's economy is performing well thus, more firms must be encouraged to list to improve upon the volume of trade and liquidity in the market. One step to attracting these firms is to find out the factors that cause them not to float part of their shares on the exchange and explore ways to encourage them to list.

1.3 Problem Statement

The Ghanaian business environment is conducive and this has contributed to the development of the private sector. Many private companies in one way or the other seek capital to expand operations or for other purposes. Many of these private companies are performing well and would benefit from going public but, very few float part of their shares on the exchange or use the exchange as a source of raising long term capital.

Previous studies have been relevant in discussing the issue of activities on the Ghana Stock Exchange as well as other international exchanges. For instance, the works of Alagidede & Panagiotidis (2009) discuss calendar anomalies in the Ghanaian stock market, and Benimadhu (2003) discusses the challenges facing African capital markets. Very little research has been done to investigate the reasons why firms do not float part of their shares on the Ghanaian stock market.

Low equity listing has an adverse effect on the Ghanaian economy. There are high rates of unemployment in Ghana and one way this can be reduced is by

providing firms with greater access to capital to expand operations. Firms who expand to other market segments would require more workers to meet demand which in effect creates more jobs for people in the country. Furthermore, if more firms are encouraged to list, investment opportunities would increase and businesses would boom in Ghana. This would affect the standard of living of Ghanaians positively and ultimately improve Ghana's economic performance.

In response to the adverse effect to the Ghanaian economy, industry professionals and policy makers must be made aware of the factors that cause firms not to float their shares on the exchange. By educating these stakeholders, certain policies or measures can be employed to attract unlisted firms to float their shares on the exchange. In effect, this study seeks to explore the reasons why many firms in Ghana do not float part of their shares on the exchange or use it as a source of raising long-term capital.

1.4 Objectives

The purpose of this study is to investigate the reasons why many firms have not listed their stocks on the Ghana Stock Exchange. In effect, the research seeks to;

1) Investigate the factors that account for the low equity listing on the Ghana Stock Exchange.
2) Explore the various measures that can be put in place to encourage more firms to float part of their shares on the exchange.

1.5 Research Questions

The questions to be explored in this research includes;

1) Why are most companies not using the exchange to raise long-term capital?
2) What can be done to encourage more firms to list on the exchange?

1.6 Theoretical Framework

Many theories have been debated upon by researchers to explain firm's optimal structure as well as factors that motivate firms to go public. Examples of such theories are the pecking order theory by Myers and Majluf (1984), and the tradeoff theory by Bharath and Dittmar (2006). It is however important to test the validity of these theories in developing economies such as Ghana.

1.6.1 The pecking order theory

Myers and Majluf (1984) discuss the concept of a pecking order of financing: internal equity, debt financing, and then external equity. According to their works, management will do their best to grow the firm with internal equity first, and then debt when additional funds is needed, and finally issue external equity only after exhausting the other two options. The conclusions drawn from this theory is that, firms usually adopt this order of financing due to the various cost associated with each step in the capital structure. According to their works, firms would prefer to use internal equity rather than costly external financing. Firms who generate high profits are likely to list on exchanges due to its relatively higher cost (Myers and Majluf, 1984).

1.6.2 Tradeoff theory

The tradeoff theory by Bharath and Dittmar (2006) discusses firms going public decisions. In their study, a model was illustrated which emphasizes the tradeoff

between the costs and benefits of going public. According to Bharath and Dittmar (2006), a firm would go public if the benefits of liquidity exceed the cost of having lesser control in decision making, and would go private if the costs of having lesser control exceed the benefits of liquidity.

Testing these theories in this research would serve as a guide to conclude as to whether these theories exist in the Ghanaian context and whether firms follow a chronological order when it comes to financing their businesses or firms do not issue external equity due to their high cost as stated by Myers and Majluf (1984). The tradeoff theory extensively, would help the researcher explore whether the reasons why firms in Ghana do not float part of their shares is as a result of the cost of having lesser control exceeding the benefits of liquidity.

1.7 Literature Review

Literature available around this research subject include studies on the factors that influence the decision to go public in developing economies, benefits of listing, volume of trade and how it affects liquidity in the Ghanaian stock market.

1.7.1 The going public decision

Studies on the going public decision by Subrahmanyam and Titman (1999) describe the relationship between information conveyed in the exchange and the going public decision. According to Subrahmanyam and Titman (1999), a relatively small number of firms listed on the exchange affect information conveyed in the exchange, making information on activities of the exchange less accurate. As stock markets grow and stock prices generally improve, unlisted firms become attracted and this serves as an incentive for them to go

public. Schiozer et al (2010) supports this study by suggesting that, the decision to go public by firms can be explained by greater growth opportunities in the capital market. The Ghanaian stock market offers such great opportunities for firms. For example, the Ghana Alternative Market was introduced in 2012 to give SME's a platform that allows them to raise long term capital. However, SME's in Ghana are yet to take advantage of this opportunity. Firms in Africa may have different motivations for going public as against the factors stated by Schiozer et al (2010) and Subrahmanyam and Titman (1999). Better growth opportunities may not necessarily act as a motivational factor for firms in Africa to go public. Findings from these authors are skewed to stock exchanges in developed economies such as Europe.

1.7.2 Benefits of listing

Benefits of listing is important in this research because an objective of the research is to encourage more firms in Ghana to list. The works of Wang et al (2004) study the benefits of public listing particularly for State Owned Enterprises. According to the study, a vast majority of China's publicly listed companies are formerly state-owned or state-controlled firms. They concluded that public listing can possibly help separate enterprises from government autonomy. State Owned Enterprises who float part of their shares are able to raise capital which in turn reduces their high debt-to-asset ratios. Also, there are improved managerial incentives and the involvement of shareholders who are able to monitor managers to promote work efficiency (Wang et al, 2004).

Essentially, it can be argued that, these benefit do not apply to only State Owned Enterprises but to all firms who decide to go public. Pagano et al (1998)

also conducted a research on European companies and the reasons why they list abroad in developed economies with specific reference to the United States of America. Findings from this research concluded that, these European companies gain a number of benefits from public listing abroad. For instance, listing abroad loosens the financial constraints faced by these private firms and facilitates business expansions into other geographical areas.

Available literature on the benefits of listing is significant to this study because it would inform unlisted firms on the benefits derived from floating shares on the exchange and in effect attract them to list on the exchange.

1.7.3 Volume of trade and liquidity

According to Benimadhu (2003), some of the pressing issues affecting stock markets in Africa include the small size of the exchanges and their level of efficiency. This study concludes that, stock exchanges in Africa are small in size mainly because very few firms are listed. He argues that having few firms listed on the exchange causes the exchange to be unattractive to investors. The effect of a low investor base is a reduction in the volume traded which leads to low level of liquidity in the market.

Also, the work of Subrahmanyam and Titman (1999) concluded that there is an externality associated with going public. This study discusses that an increase in the number of firms that are traded publicly is an incentive to become an active investor on the stock exchange. According to their study, barriers that prevent investors from becoming active and strong such as high brokerage commission must be reduced in order to increase the volume of trade on the exchange and hence increase liquidity in the market.

Conclusions drawn from Benimadhu (2003) and the work of Subrahmanyam and Titman (1999) would be used as supporting literature to determine whether the number of listed firms on the GSE has an effect on its investor base.

Literature available does not delve into the reasons why firms do not float part of their shares on stock exchanges in developing economies. Literature available on the going public decision usually focused on developed economies such as Europe, Asia and the United States of America. The motivations for firms in such developed economy many not necessarily be the same for firms in developing economies such as Ghana. More specifically, there is no available literature on why developing, yet performing stock markets like the Ghana Stock Exchange has very few firms listed. Literature available on the going public decision, benefits of listing, importance of stock exchanges or volume of trade and liquidity would be used to support findings derived from this research.

1.8 Methodology

This study is an exploratory study designed to investigate the reasons why many firms are not listed on the Ghana Stock Exchange and the possible implications on the capital market. An exploratory study is being used to better understand the problem of low equity listing on the GSE as well as gain ideas and insights on it. This research makes use of qualitative research methods with data obtained through interviews and surveys. Population for the study is brokerage and unlisted firms in the Greater Accra Region of Ghana. The choice to select brokerage and unlisted firms in the Greater Accra Region is based on their proximity to the researcher. Unlisted firms would be purposefully selected based on their capital adequacy, profitability, and years of existence.

Face to face interviews was employed to gain a broader insight on the problem and also allow for discussion with respondents to bring forth their opinions. Interviews made use of a purposive sample of industry professionals from the Ghana Stock Exchange, Securities and Exchange Commission, as well as three brokerage firms in the Greater Accra Region of Ghana. The decision to use these three (3) brokerage firms is based on GSE's ranking of brokerage firms by the volume traded (buy volume) over the financial year, 2013. These firms emerged as part of the top five firms who traded large volumes on the exchange. These officials would share their opinions and views on the topic under study.

Furthermore, a convenience sample of senior level officials from ten unlisted companies in the Greater Accra Region would be surveyed through questionnaire administration. Questionnaires would be administered to respondents to explore their views on stock market operations and the reasons why they do not float part of their shares on the exchange. Convenient sampling method would be used due to the short time available for the research. This will bring the total sample size to fifteen institutions from the selected population. The sample size would have an effect on the outcome of this research. Findings cannot be generalized because data derived does not represent 100% of opinions of industry professionals or unlisted companies. Also, there may exist many different reasons why firms who are not selected to participate in this research do not float their shares but these reasons have not been factored in as part of the findings of this research due to the sample size selected.

In terms of data analysis, interviews which constitute qualitative data would be analyzed using content and narrative analysis as the analytical techniques. Content analysis would allow qualitative data obtained from the research to be assessed for themes, categorical frequencies, and inter-respondent consistency. Questionnaires would be analyzed using both descriptive and content analysis. Data would be presented using bar charts.

1.9 Justification for the study

There is a gap in literature since very little research has been conducted on why few firms are listed on the GSE. Literature available is also based on developed economies such as Europe and Asia. This study will add to the body of knowledge in regard to equity listing on the exchange by focusing specifically on developing economies such as Ghana and the reasons why few firms are listed on its exchange.

By focusing on progress and achievements drawn by the GSE since its inception as well as interacting with the industry players, the study explores measures that can be put in place to encourage more firms to list. There is the need to make literature and facts available on why few firms do not float their shares on the GSE in order to inform policymakers and the government of this economic problem and make efforts to set up policies that will help encourage more firms to list to strengthen the Ghanaian financial market.

The findings from this study could be utilized by the various non-listed companies and investors to boost their confidence in equity listing on the Ghanaian stock market. Unlisted firms would also be exposed or educated on

the benefits of listing on the exchange and in attempt make efforts to use the exchange as a way of raising long term capital for business expansion.

1.10 Scope and limitations of the methods

The aim of the study is to investigate the reasons why few firms are listed on the GSE and suggest measures to encourage firm participation. This research was conducted by purposefully sampling firms and brokerage houses in Accra, because a number of companies operate in this region thus, it is a fair collection of companies for this study. The scope selected for this study posed a number of limitations which is discussed below.

First, responses gathered from firms in the Greater Accra Region of Ghana on the reasons why they are not listed cannot be generalized to firms all over Ghana. This is because there are ten regions in Ghana with many different businesses emerging from these regions. Reasons why firms in other regions are not listed or the factors that would encourage them to list might differ from business to business or industry to industry in these regions. Due to this, findings from the research conducted in the Greater Accra Region would only make a small percentage of the reasons why firms in Ghana are not utilizing the GSE.

Secondly, the time the research was conducted posed a limitation to the study. This study took place from September 2013 to April 2014 at a time when macroeconomic conditions in Ghana was unstable due to the depreciation of the cedi to the dollar. The unstable macroeconomic condition could influence a firms' decision not to list on the local exchange (GSE). This is to say that, results from the research could have been different if macroeconomic conditions were

stable during the period of the research. Also, findings could be said to be biased to happenings in the Ghanaian economy as at the time the research was conducted.

Finally, non-probalistic sampling and the data collection process employed posed a limitation to the study. The choice to employ expert purposive sampling and convenience sampling had an influence on the total sample that was chosen. Results obtained cannot be generalized since the selected sample does not represent 100% of the opinions of the players in the stock market and firms in Ghana.

1.11 Outline of thesis

This report is divided into five chapters. Chapter One is the introduction which summarizes the background to the study, problem statement, objectives of the study, research questions to be answered, methodology, justification for the study and finally the outline of the thesis. The second chapter reviews other researchers' work on the topic and summarizes their findings. The third chapter is a discussion of the research methodology. This includes the data collection method, sample size used, types of data and the limitations of the methods used. It also explains the rationale for using the various research methods and their application.

The fourth chapter focuses on the analysis of results or data gathered for the study and discusses the results. Chapter five would capture recommendations which would be informed by the results of the study. Conclusions would also be drawn in Chapter Five to capture the key concepts that were discussed during

the study. The chapter also presents suggestions on the areas of future research.

Chapter 2

Literature Review

2.1 Introduction

The previous chapter presented a background to the activities of the Ghana Stock Exchange and its importance to the Ghanaian economy. This chapter reviews related literature relevant to this study. It covers four broad areas: volume of trade and how it affects liquidity in the market, factors that influence the decision to go public in developing economies, and the benefits of going public. Each area is reviewed thoroughly to provide a summary of their ideas relating to equity listing, as well as identifying gaps in the literature, which would serve as a basis for this research.

2.2 The going public decision

The works of Subrahmanyam and Titman (1999) suggest that, as stock markets grow and stock prices generally improve, unlisted firms become attracted and this serves as an incentive for them to go public.

Schiozer et al (2010) support this study by suggesting that, the decision to go public by firms can be explained by greater growth opportunities in the capital market. The Ghanaian stock market offers such great opportunities for firms. For example, the Ghana Alternative Market was introduced in 2012 to give SME's a platform that allows them to raise long term capital. This opportunity would not only meet the firm's capital needs but also give the company recognition in the global market which is a long term benefit that firms who list enjoy as against unlisted firms. However, not many firms in Ghana take advantage of this opportunity. One may argue that, firms especially in Africa may have different motivations for going public. Better growth opportunities

may not necessarily act as a motivational factor for firms in Africa. Findings from the works of Schiozer et al (2010) and Subrahmanyam and Titman (1999) is skewed to stock exchanges in developed economies such as Europe.

A dissertation by Owusu-Adjei (2013) on the efficiency of the Ghana Stock Exchange proved that, firms are attracted to list when the stock market is efficient. In an efficient market, prices of securities accurately reflect the information relevant and available to investors. When investor confidence increases and market activities become transparent and effective, more firms would be attracted to list in order to enjoy the benefits that come with listing.

Pastor and Veronesi (2005) have observed that private firms tend to go public after observing improving market conditions. They have established a relationship between stock market conditions and the going public decision. This research was based on Italian firms and their stock market with no focus on African stock markets. One may argue that, results obtained from the going public decision of Italian firms may be different if the research had considered other firms in other geographical areas for instance Ghana, where market conditions are good but firms are not listing.

The works of Pagano et al (2002) discusses the reasons why European companies list abroad particularly in the United States of America. The reasons are that, American exchanges are more liquid, have better accounting standards, and shareholder rights' protection is better than most European countries. As such, there is lower cost of equity capital which is most important to companies who need to raise large amounts of fresh equity. Pagano et al (2002) concluded that it is expected for large companies to be cross listed

instead of smaller companies. This is because the cost of listing on these exchanges are expensive (large fixed cost) which would bear heavily on a small company who decides to cross-list.

2.3 Benefits of listing

Benefits of listing is important in this research because an objective of the research is to encourage more firms in Ghana to list. The works of Wang et al (2004) study the benefits of public listing particularly for State Owned Enterprises. According to the study, a vast majority of China's publicly listed companies are formerly state-owned or state-controlled firms. They concluded that public listing can possibly help separate enterprises from government autonomy. State Owned Enterprises who float part of their shares are able to raise capital which in turn reduces their high debt-to-asset ratios. Also, there are improved managerial incentives and the involvement of shareholders who are able to monitor managers to promote work efficiency. Essentially, it can be argued that, these benefits do not apply to only State Owned Enterprises but to all firms who decide to go public.

Pagano et al (1998) also conducted a research on European companies and the reasons why they list abroad in developed economies with specific reference to the United States of America. Findings from this research concluded that, these European companies gain a number of benefits from public listing abroad. For instance, listing abroad loosens the financial constraints faced by these private firms and facilitates business expansions into other geographical areas.

Available literature on the benefits of listing is significant to this study because it would inform unlisted firms on the benefits derived from floating shares on the exchange and in effect attract them to list on the exchange.

2.4 Volume of trade and liquidity

A dissertation by Agyeman (2013) discusses factors that contribute to the slow development of the Ghana Stock Exchange. He states that, the absence of a strong and active domestic investor base, as well as institutional investors such as pension funds and insurance companies contribute to the slow development of the Ghana Stock Exchange. According to his works, inactive investor base affect volumes traded and stock market liquidity in the long run.

According to Benimadhu (2003), some of the pressing issues affecting stock markets in Africa include the small size of the exchanges and their level of efficiency. This study concludes that, stock exchanges in Africa are small in size mainly because very few firms are listed. He argues that having few firms listed on the exchange causes the exchange to be unattractive to investors. The effect of a low investor base is a reduction in the volume traded which leads to low level of liquidity in the market.

Also, the work of Subrahmanyam and Titman (1999) concluded that there is an externality associated with going public. This study discusses that an increase in the number of firms that are traded publicly is an incentive to become an active investor on the stock exchange. According to their study, barriers that prevent investors from becoming active and strong such as high brokerage commission must be reduced in order to increase the volume of trade on the exchange and hence increase liquidity in the market.

Conclusions drawn from Agyeman (2013), Benimadhu (2003), and the work of Subrahmanyam and Titman (1999) would be used as supporting literature to determine whether the number of listed firms on the GSE has an effect on its investor base.

In affirmation, there is lack of analysis on the reasons why firms are not listed on stock exchanges, particularly in developing economies. There has been limited work done on this topic and most of the concepts and related work were extensively done on the going public decision, arguments against listing, benefits of listing and how volume of trade affects liquidity. Also, research available focused primarily on emerging economies with little focus on developing economies such as Ghana. This study aims to focus on a developing economy, which is Ghana and its stock market activities. The study aims to bridge the gap in literature, and thereby contribute useful information for future research.

Chapter 3

Methodology

3.1 Introduction

The previous chapter reviewed literature relevant to this study. This chapter focuses on the research methods used for the study and the sample techniques that were employed in the collection and analysis of data. An explanation of the procedures, and the rationale for every method applied would also be given.

3.2 Research design

The research approach employed was mainly exploratory research. This type of research design is a credible means of exploring happenings in an environment, seeking insights into a situation and generally asking questions to assess a phenomena in an environment (Robson, 1993). This makes exploratory studies investigative in nature thus, appropriate to employ in this research.

3.3 Data types and sources

The sources of data for this study is primary data. Primary data was obtained through interviews and questionnaire administration with selected brokerage firms, unlisted companies, as well as officials from SEC and the GSE. Interviews helped the interviewer pursue in-depth information around the research topic as well as allow respondents to share their experiences on activities of the Ghana Stock Exchange. Conducting interviews would be particularly useful as a follow-up to certain responses from unlisted firms who were surveyed. The aim of this follow-up is to allow the investigator to further investigate their responses (McNamara, 1999). Also, a research by Kinnear and Taylor (1997) concludes that, in depth interviews are a good way of conducting exploratory research.

3.4 Population of the study

The population of the study is made up of officials from the stock market, brokerage firms and unlisted firms in the Greater Accra Region of Ghana. The rationale for selecting firms in the Greater Accra Region as the population for the study is due to a number of factors. First, a number of companies operate in this region thus, it has a fair collection of companies that guarantees selection of a representative sample. Also, the rationale for selecting brokerage firms in the Greater Accra Region is because it is within this region that these brokerage firms operate.

3.5 Sampling techniques

Purposive sampling and convenience sampling are the two types of non-probabilistic techniques employed in the study. Purposive sampling made use of experts such as brokers from brokerage firms in Ghana, officials from SEC and GSE, who have demonstrated experience and expertise in trading activities on the stock market. This technique was very useful for the study because it served as an avenue for experts to share their views and insights on trading on the exchange.

Unlisted firms were selected using convenience sampling based on their proximity to the researcher. Questionnaires were administered to these respondents to obtain their views and reasons for not listing on the exchange.

3.5 Strata to be sampled

The strata that was sampled included brokerage firms, unlisted companies, the Ghana Stock Exchange (GSE), and Securities and Exchange Commission (SEC). One official each from three brokerage firms in Ghana was selected for an

interview. Brokerage firms were selected based on GSE's annual report for data on brokers who traded the largest volume of shares (Buy volume), over the fiscal year, 2013. The three firms that traded the highest during this period were selected for the study. This report is released usually at the end of the year and serves as the rationale for the choice of brokerage firms selected for the study.

A senior level official from both the GSE and SEC were also interviewed. A senior level official from each of the ten selected unlisted firms were surveyed through questionnaire administration to investigate the factors that influence their decision not to float part of their shares on the GSE. This brings the total sample size to fifteen institutions from the selected population. The rationale for including these respondents is because they play distinct roles in the Ghanaian capital market and their views on operations of the Ghana Stock Exchange would contribute to the topic under study.

3.6 Data collection methods

Unstructured interviews, and surveys (questionnaire distribution) were employed as data collection methods to help answer the research question.

3.6.1 Interviews

Unstructured interviews was used to find out more on the reasons why many firms do not float part of their shares on the GSE. Officials from SEC, GSE and the three brokerage firms were interviewed. The rationale for using unstructured interviews was to provide an opportunity for the interviewer to record responses which would be useful for the study. Also, conducting

interviews with industry professionals allowed the researcher to follow-up on certain responses from unlisted firms who were surveyed.

3.6.2 Survey

Questionnaires were administered to respondents from unlisted firms to solicit their views about equity listing on the GSE. According to Saranthakos (2005), unlike interviews, questionnaires may not motivate respondents to participate or to answer a question. However, it gives respondents no pressure at all since it can be completed at their convenience. Questionnaires went through a pilot testing with students and lecturers in the Business Department of Ashesi University College. The purpose for testing was to determine whether the sensitivity and clarity of questions would motivate respondents to participate or deter them from answering the questions.

3.7 Data collection process

Appointment were booked and permission was sought from respondents before the surveys and interviews were conducted. The data collection process is as explained below.

3.7.1 Interviews

Respondents were asked to participate in an interview with the researcher at any convenient place requested by the respondent to ensure that the respondent is comfortable to answer questions accurately. Interviewees who were not comfortable enough to give response to certain questions were given the opportunity not to answer these questions even though they posed an effect to the outcome of the data gathered.

3.7.2 Surveys

Selected respondents completed a questionnaire which was provided and collected by the researcher. The respondent were given the option to fill out the questionnaire themselves, or it was read out for them to provide their responses. Respondents who did not wish to answer certain questions included in the survey, were allowed to skip and move on to other questions. The information recorded is confidential, thus respondent names were not stated on the forms, and only a number identified the respondents. The researcher and her supervisor are the only persons with access to the information that was provided during the survey.

3.8 Human subject review consideration

Respondents were briefed on the purpose of the study and were assured of confidentiality of any information given. Interviewees were encouraged to talk freely about experiences and opinions in relation to the research topic to make results more reliable. Permission was sought from these respondents to allow the interviewer record the entire interview session and were assured that respondents will not be identifiable. The procedure for handling and storing data so that confidentiality of the subjects and privacy are protected was to have a soft copy which is password protected to ensure it is stored and handled properly.

3.9 Methods and tools for data analysis

Qualitative data was analyzed using content and narrative analysis. Responses were assessed for themes and inter-respondent consistency before they were transcribed for analysis. Data was presented using Microsoft Excel bar charts.

Chapter 4

Data Analysis and Discussion

4.1 Sample and response rate

This chapter presents the analysis of results obtained from the research. The respondents were categorized into four clusters comprising of unlisted companies who were (10), staff of the exchange (1), staff of the securities and exchange commission (1), and brokerage firms (3), summing up to a total of 15 respondents as represented by the Table 2 below.

Table 1: Categorization of respondents

Classification	**Sample Size**	**Responses received**	**Response Rate**
Unlisted firms	10	8	80%
Staff of the GSE	1	1	100%
Staff of SEC	1	1	100%
Brokerage firms	3	2	67%
Total	**15**	**12**	**80%**

From Table 1, unlisted Companies questionnaires were 10 but 8 questionnaires were received given a response rate of 80%, an official of the exchange as well as the Securities and Exchange Commission was sampled for an interview of which both responses were received representing a 100% response rate. Finally three brokerage firms were sampled of which 2 responses were received signifying a response rate of 67%.

4.1.1 Performance of the index and volume traded

In a bid to know whether the exchange has been performing well over a period of time, five industry professionals (brokerage firms, GSE and SEC) were sampled for an interview as shown in table 2 above. As per interviews conducted and response from four out of the sampled five industry professionals, the Ghana Stock Exchange is performing relatively well on the international market. Despite the persistent debt problems in the Eurozone, depreciation of the Ghana cedi and interest rate hikes on government securities, the index is performing well. The GSE Composite Index had a return of 58% in 2008, minus 47% in 2009 as a result of the recession, 32% in 2010, minus 3% in 2011 in an attempt to recover from the recession, 24% in 2012 and 78.81% in 2013.

To support this response with literature, a report by the Databank quarterly market research on African stock markets stated that the return on the GSE composite index for 2013 makes the exchange one of the best performing stock markets in Sub-Saharan Africa.

4.1.2 Future prospects for the Ghana Stock Exchange

Response from four industry professionals indicated that, the performance of the exchange fluctuates periodically due to a number of socio-economic factors such as the recession, and the depreciation of the Ghanaian cedi. As a result of this, the exchange recorded a few negative returns in both 2009 and 2011. However, the exchange continuously makes efforts to improve the performance of the index which is evident considering the high returns of 78.81% reported in the year 2013.

As per responses received from industry professionals, the exchange has a huge potential to grow and perform better on the international market. As part of the exchanges future prospects, they expect an increase in the number of listings on the GAX and the main market. Also, with an increase in public education through various media, more firms would be attracted to float their shares on the exchange to improve liquidity on the exchange.

With the development of the oil sector and other industries, more firms should be encouraged to float their shares and use the exchange as a medium to raise long-term capital. When this is achieved, activities on the stock market in terms of trading volumes would increase, investor confidence would increase and translate into better performance of the exchange in the long run.

4.2 Benefits of listing

A significant part of this research was to explore measures that can be employed to encourage more firms to list on the exchange. As a result of this, a section was included in the interviews conducted to solicit for industry professional's view on the benefits of listing so as to attract firms to list and enjoy these benefits.

There are many benefits derived from floating part of a firm's share on the exchange. According to responses from industry professionals, floating shares enables a company to know its true value. This is because, shares are usually priced and companies are valued once listing is successful. This act enables the firm to know its true value. This would cause owners to realize their sweat capital after long years of doing business.

Secondly, firms are able to raise long-term capital to run operations and expand the business to other market segments. As part of raising capital, listed companies also have easy access to bank loans than unlisted firms due to the transparent nature of firm activities as a result of the floating of shares to the public. The financials of these listed companies are known to the public and it becomes relatively easier when a listed company needs to be granted a loan for expansion as compared to an unlisted firm. According to the works of Pagano et al (1998) and Wang et al (2004), one benefit of public listing is the fact that it loosens the financial constraints faced by private firms and facilitates business expansion.

Furthermore, respondents stated that, listing improves company image in the global market. A research carried out by Mensah et al (2012) concluded that, one the benefits companies gain from listing on the Ghana stock exchange is an increase in public awareness and public interest of the company which promotes its image in the global market.

Clearly these responses from industry professionals as well as available literature show that listing on the exchange is accompanied with a number of benefits. Unlisted companies must make efforts to list in order to gain from such benefits.

4.3 Factors that account for low equity listing

One of the objectives of this research was to explore the reasons why firms are not listing on the exchange. This was achieved by asking unlisted firms, "what factors account for your company not floating its shares on the Ghana stock exchange?" Responses are presented in figure 1 and discussed below.

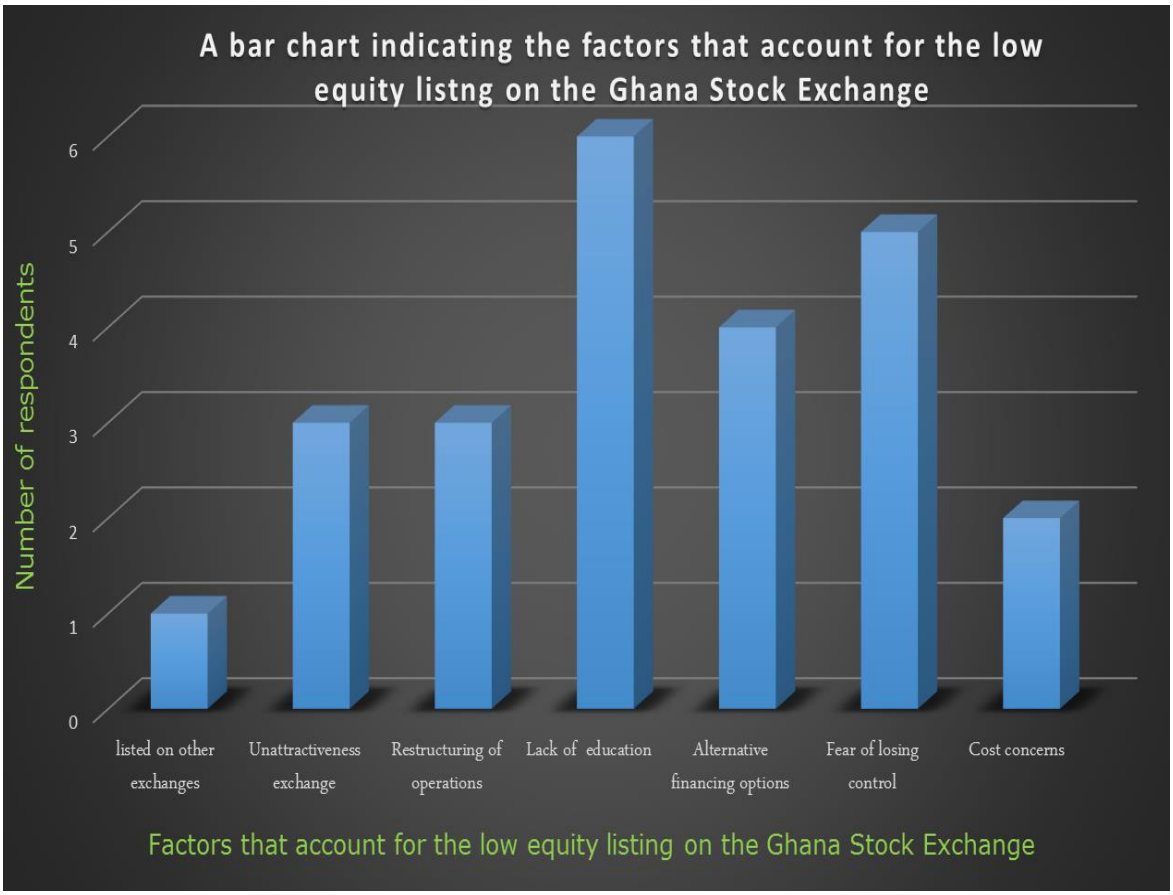

Figure 1: Factors that account for the low equity listing on the GSE

4.3.1 Lack of public education

From Figure 1, a total of six respondents representing 50% of total sample (12 respondents) stated that, a company in Ghana not listing on the exchange could be attributed to the lack of education through information about activities on the stock market. These companies expressed their decision not to list due to their minimum knowledge regarding how the stock exchange operates and advantages of listing.

Lack of public education could be attributed to the major reason why firms are not listed on the Ghana stock exchange as shown in Figure 1. Stating the lack of public education as the major reason why firms in Ghana are not listed on

the GSE cannot be generalized to all firms in Ghana. However, if 50% of respondents from the selected sample are not listed because there is very little education on activities of the stock market, then the exchange has not created enough awareness to attract the public to list.

For a company that has been in existence for about twenty years such as Company G, they have the perception that, perhaps they are either not qualified enough or the business may be too small in size to be needed to join the exchange. This company in question meets the criteria for listing in terms of profitability, twenty years of existence, minimum stated capital between GHC 60-100 million and external auditors who audit accounts quarterly. For such a company, this perception should not exist but due to the low education of how the stock exchange operates, they do not know that the company is qualified to list. To support this finding, an article by Irving (2000) on African stock markets, concluded that the small size of African stock exchanges is because African exchanges do not particularly promote their activities to the public. This causes very few firms to know about stock market operations and in effect do not list.

In response to the lack of public education about activities on the stock market, interview with industry professionals revealed that, the exchange is making efforts to increase public awareness about activities on the exchange. The exchange is employing the use of various media such as face to face interactions with unlisted firms in Ghana as well as constant updating of the GSE website to provide more information to the public.

4.3.2 Fear of losing control of business

Responses from both industry professionals and unlisted firms representing 42% of responses showed that, a firms' decision not to list on the GSE could be attributed to the fear of losing control of the business to the public. Company B is a State Owned Enterprise that has been in existence for about 49 years, satisfy all the criteria for listing but is not listed due to the unwillingness of the major shareholders to float their shares. Company A which is a private business and has been in existence for about five years is performing well, yet not listed because the owner wants to pass on the business as an inheritance to his children. According to data obtained from this company, owners and managers fear to lose control to the public because they want 100% control of the company. Irving (2000) in her article on Africa's struggling stock exchanges stated that, in Africa, local companies have made relatively little use of stock exchanges because their managers fear losing control after going public (Irving, 2000). The tradeoff theory by Bharath and Dittmar (2006) also suggests that firms who benefit from having a greater control of their company would prefer to remain private rather than gain less when listed on the exchange.

Clearly, respondents are benefiting from a 100% control of their businesses thus their unwillingness to list. Conclusions drawn from this finding supported with literature prove that the difference in the fear to lose control stems from the size of the business. The works of Irving (2000) supports this finding by stating that, in Africa, usually the small sized and medium firms are the selected few who fear to lose control because they would want to pass on their businesses to their children. On the contrary, the works of Bharath and Dittmar

(2006) show that, large scaled businesses are not listed because they fear to lose control to the public when they would gain less after floating shares. Large scaled businesses would prefer to have 100% control and gain higher profits than float shares and gain less.

4.3.3 Alternative financing options

The Pecking order theory by Myers and Majluf (1984) is a theory that concludes that a firm would initially finance operations using its internal equity, retained earnings, and then to obtain debt usually from banks. According to this theory, a firm would acquire external equity only after exhausting the other two options. This is to say that, unlisted firms have not fully exhausted the other two options of financing thus their reason not to list (external equity) to successfully finance operations. On this basis, a research on whether firms in Ghana follow or conform to this theory was conducted. Responses from eight unlisted companies out of the ten selected companies who are performing well in the Ghanaian business environment was analyzed.

As per the surveys conducted, results show that, all the selected unlisted companies currently finance operations using either debt or internal equity. No company uses external equity as at the time the research was conducted. From the research, it was evident that, these firms may not necessarily follow a chronological order as suggested by Myers and Majluf (1984). However, the two options, whether debt or internal equity, are the options many of them employ to raise capital to finance operations. The fact that these firms are not listed prove that the other two options have not been completely exhausted, supporting the pecking order theory.

4.3.4 Restructuring of operations

More so, results from the research shows that, three out of eight unlisted firms representing 38% or respondents are not listed on the exchange due to their desire to restructure firms operations. For some companies such as Company A, D, and E, restructuring of operations is important for them in order to meet all the criteria for listing and to make sure there is no regret after listing such as inability to perform well on the exchange. Restructuring in the form of keeping proper books of accounts, hiring auditors to audit accounts frequently, employing better skilled workers and lastly putting up new projects with the aim of improving operations to give existing shareholders attractive returns before going on the exchange. In support of this finding, an article in the GhHeadlines (2014), stated that, transparency scares away firms in the Ghanaian business environment. According to SEC's requirement, firms would have to disclose financials or accounts before and after the process of listing. This requirement makes it difficult for firms to list because many of the local firms do not keep proper book of accounts and therefore shy away from the exchange when they are required to do so. This article supports the fact that, some firms in Ghana not floating part of their shares could be attributed to the need to restructure operations to meet stock exchange requirement.

4.3.5 Unattractiveness of the exchange

Furthermore, two out of eight unlisted firms representing 25% of respondents are not listed on the exchange due to the unattractiveness of the exchange in terms of the efficiency of the market. Company B and F expressed their decision to have not listed due to the unattractiveness of the exchange as a brand. Data

obtained from this research shows that, these companies view the exchange as inefficient. To support this argument, a research conducted by Owusu-Adjei (2013) on the efficiency of the Ghana Stock Exchange proved that, the Ghanaian stock market is not an efficient market. According to Owusu-Adjei (2013), "prices of securities do not accurately reflect the information relevant and available to investors. It rather represents a weak form of efficiency because the Ghanaian market does not follow the random walk thus using historic prices, one can accurately predict future prices for close to a year". It can be deduced that, market inefficiency which causes the exchange to be unattractive to unlisted firms can lead to low equity listing on the exchange.

4.3.6 Cost concerns

As per the interviews conducted and the feedback from two industry professionals, the observation is that, listing on the exchange is costly. Listing on the exchange involves a variety of costs. These cost include direct costs such as annual listing fees, fees for professional advice, membership fees, and application fees. These fees make listing on the exchange expensive and thus, deter these firms from floating part of their shares on the exchange.

In a research conducted by Mensah et al (2012), a focused group discussion with staff of the Ghana stock exchange revealed that, among the various challenges causing firms not to list on the exchange is the high cost of listing on the exchange. The pecking order theory by Myers and Majluf (1984) also buttresses this point by stating that firms would consider external equity as the last source of financing due to the high cost associated with it.

Cross listing is expensive due to its large fixed cost as discussed by Pagano et al (2002) thus, large firms are usually expected to list abroad. Contrary to Pagano et al (2002), findings from this study revealed that the large firms sampled for this research with more than five years of experience and a stated capital between Ghc 10 to 100 million are not listed on the local bourse due to the high cost of listing. It is interesting to know that in the Ghanaian context, listing on the exchange is not only expensive when it is done abroad (cross listing) as concluded by Pagano et al (2002), but can also be expensive on the local bourse.

Differences in context proves that the motivations for listing differs from culture to culture or economy to economy. In Europe, which is a more develop economy as compared to Ghana, large firms would prefer to list abroad because they can bear the large fixed cost associated with listing abroad. However, in a developing economy such as Ghana, even large firms are reluctant to list because the cost of listing on the local bourse is expensive.

4.3.7 Listing on other exchanges

Lastly, results obtained from the survey revealed that, Company H which is a multinational company with about 100 years of existence is not listed on the Ghana Stock Exchange because it is listed on other exchanges such as the New York Stock Exchange (NYSE). Company H agreed to only list on the Ghanaian Stock Exchange if they need to source additional equity in the local currency to run operations. Multinational usually list on larger exchanges that are more liquid thus, Company H's decision to not float part of their shares on the local exchange.

To support this observation, the work of Pagano et al (2002) which discusses the reasons why European companies list abroad particularly in the United States of America would be reviewed. As part of the reasons discussed in this survey, American exchanges are more liquid, have better accounting standards and shareholder rights' protection than most European countries. As such, there is lower cost of equity capital which is most important to companies who need to raise large amounts of fresh equity. Company H's decision to list abroad gives it the privileged to enjoy all these benefits.

Also, Pagano et al (2002) concluded that, it is expected for large companies such as Company H to be cross listed instead of smaller companies. This is because the cost of listing on these exchanges are expensive (large fixed cost) which would bear heavily on a small company who decides to cross-list.

4.3.8 Summary of results on low equity

Responses derived from this research proves that there are various factors that account for the low equity listing on the Ghana Stock Exchange. These factors have been presented on a column chart above (Figure 1). From the chart, the major reason why firms do not float part of their shares could be attributed to their minimum knowledge regarding activities on the Ghanaian stock market. Other attributing factors in descending order (highest to lowest frequency) are the fear of losing control of business, the decision to use alternative sources of financing such as debt or internal equity, restructuring of firms operations to meet criteria for listing, unattractiveness of the exchange (market inefficiency), cost concerns (listing fees), and listing on other exchanges such as the New York Stock Exchange in the United States of America.

4.4 Measures to attract firms to float part of their shares

As part of the objectives of this research, measures that can be employed to encourage firms to list on the exchange were explored. Results were derived from both unlisted firms and industry professional's point of view. Results obtained varied from respondent to respondent but through the use of content analysis, themes and trends that cut across all twelve respondents were identified. The results are presented in a chart below (Figure 2) and further discussed.

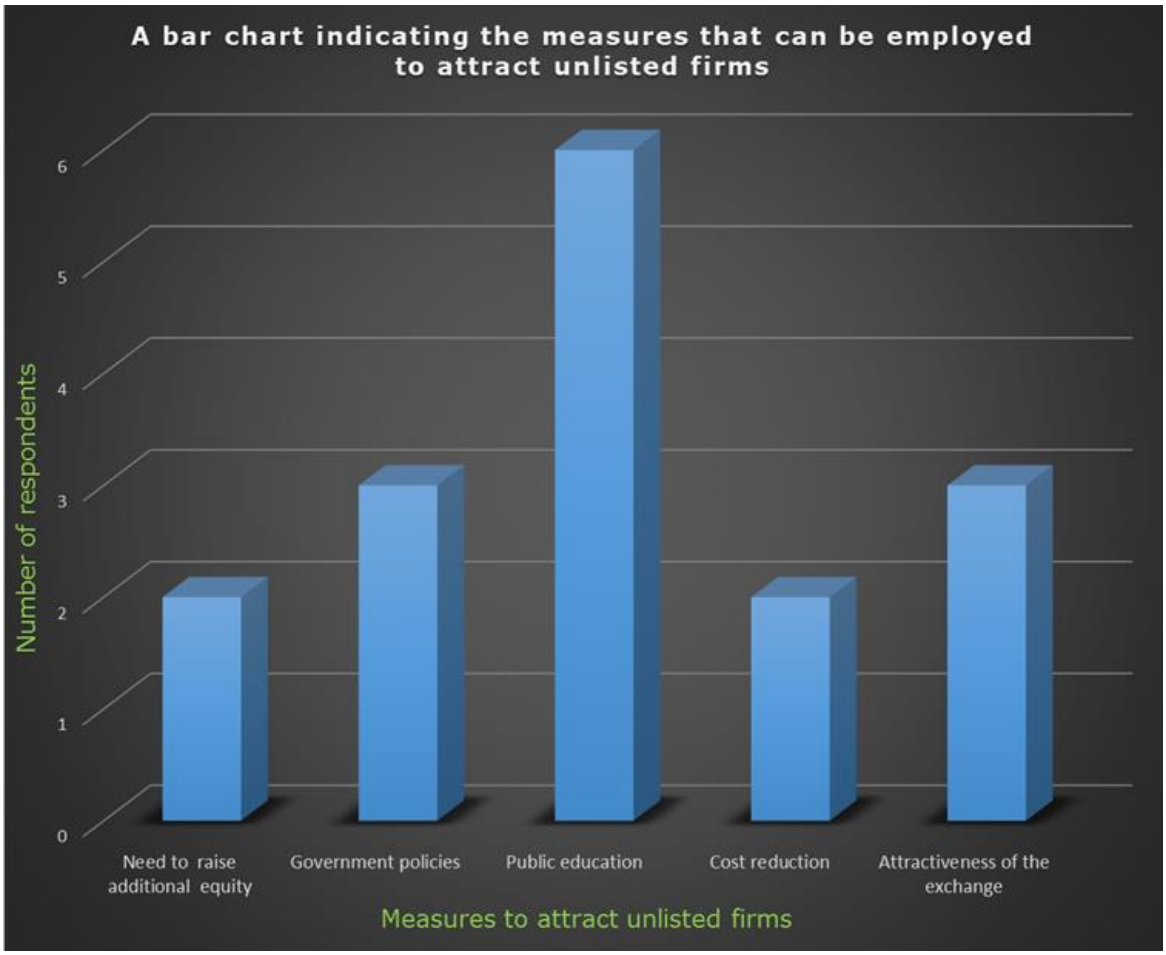

Figure 2: Measures to attract unlisted firms to float part of their shares on the exchange.

4.4.1 Public education

Six out of eight respondents representing 75% of respondents as shown in Figure 4, revealed that they would be attracted to list if there was an increase in public education about activities on the stock market. More education through information must be made available to the public regarding how the stock exchange operates and the benefits of listing. Also, investors must be educated on the benefits of trading effectively on the stock market.

According to industry professionals, some investors have the perception that, buying shares and keeping them makes it an asset. Some investors hold shares with the hope of using it as an inheritance instead of creating an account which would trade the shares on their behalf. The proceeds from this investment can be used to manage a whole portfolio which in turn pools more money for them (investors). When investors are educated on trading activities, volumes (buying and selling) increases and generally the performance of the exchange increases. This would attract more firms to list since the market is active and more liquid.

4.4.2 Government policies

Government must be involved in the active promotion of the exchange. According to an official from the Securities and Exchange Commission, there are over three hundred (300) State Owned Enterprises that have been acquired by private enterprises. Instead of Government offloading the businesses on the exchange, they are given to these strategic investors. Government should set up policies to allow government owned businesses to be offloaded to the stock market, which would increase the number of listed firms, trade volumes and

finally attract unlisted firms to float their shares. "Transferring ownership to the public through the stock exchange could be a very useful tool of, not only disempowering (former state managers), but also expanding the liquidity of these markets, developing the culture of investment, and expanding the horizon of investment opportunities that are available" (Irving, 2000).

Furthermore, Government must make efforts to improve macroeconomic conditions such as cost escalations due to the rise of the dollar and cedi depreciation to boost both investor and company confidence on the Ghanaian business environment.

4.4.3 Attractiveness of the exchange

Efforts to promote the efficiency of the Ghanaian stock market must be encouraged to attract unlisted firms. The exchange must have an attractive brand image and this can be achieved when the exchange makes efforts to have its own unique brand proposition. The brand image of the GSE can be enhanced and perceived as a profitable and trustworthy venture when officials and regulators make efforts to create awareness regarding activities of the exchange to both local and foreign firms. Creating a brand image that is profitable and trustworthy would make the exchange more unique for investment and in the long run attract unlisted firms. Another measure that can be employed to enhance the brand image of the GSE is by integrating the GSE with other African stock exchanges. Integrating with other exchanges would promote the attractiveness of the GSE because there would be expansions in trading volumes which would improve liquidity, investors would have a greater

choice of floated shares and there would be a more profitable environment for firms to raise capital at a cheaper cost (Ntim, 2012).

4.4.4 Need to source additional equity in the local currency

Results from this research indicates that, most multinationals would float their shares on local exchanges if they have the desire to raise additional equity in the local currency. Listing is a business decision and most of these multinationals do not require immediate capital. Those who require capital usually list abroad due to the high accounting standards and larger market size. In order to encourage these multinational to list, the efficiency of the local stock market must be encouraged. Also efforts must be made to improve the conditions of the local currency (depreciation of the cedi), so that the demand for trade with the cedi would be high causing these multinationals to have the need to source additional equity in the local currency.

4.4.5 Cost reductions

Response from industry professionals show that for firms in Ghana that are not listed, reasons could be attributed to high fee charges before and after listing. As a measure to attract unlisted firms, direct cost of listing, including annual listing fees and membership charges must be reviewed by the authorities (GSE and SEC).

As stated in the study, cross listing is expensive due to its large fixed cost as discussed by Pagano et al (2002) thus, large firms are usually expected to list abroad. However, contrary to Pagano et al (2002), large firms in Ghana are not listed on the local bourse and this could be attributed to the high cost of listing. It is interesting to know that in the Ghanaian context, listing on the exchange

is not only expensive when it is done abroad (cross listing) as concluded by Pagano et al (2002), but can also be expensive on the local bourse. Firms would be motivated to list if the cost of listing on the local bourse is reduced. A fund could be set up by the exchange to take care of initial cost of listing. Firms would be encouraged to list and pay back after profits have been recouped.

4.4.6 Summary of results on measures to attract unlisted firms

Response from unlisted firms indicated that there are various measures that if employed, would attract them to float part of their shares on the exchange. From Figure 4, the major factor that would attract firms to float part of their shares on the exchange is an increase in public education regarding activities on the Ghanaian stock market. Other factors in descending order (highest to lowest frequency) are active promotion of the exchange by the Government, attractiveness of the exchange (market efficiency), the need to source additional equity in the local currency (cedi), and cost reductions.

4.5 Volume of trade and liquidity

As per interviews conducted, industry professionals expressed their views on the number of firms listed and how investors react to the trade volumes supplied on the exchange. Responses from industry professionals prove that, investors are interested in trading on the exchange, however, the small size of the exchange does not give them (investors) the opportunity to trade more shares and diversify their portfolio. This makes the exchange unattractive for investors who would like to trade more shares on the exchange.

Benimadhu (2003) in his work discusses some of the pressing issues affecting stock markets in Africa. In his conclusion, small sizes of exchanges (few listed

firms) and their level of efficiency are the major pressing issues affecting stock markets in Africa. The study concluded that, having few firms listed on the exchange makes the exchange unattractive to investors. This reduces the volume of trade (buying and selling) leading to low level of liquidity in the market.

Also, a study by Subrahmanyam and Titman (1999) concluded that an increase in the number of firms that are traded publicly is an incentive to become an active investor on the stock exchange. Both individual and institutional investors are likely to become active investors when there is an increase in the number of firms that are traded publicly on the Ghana stock exchange. Attempts to improve liquidity on the Ghana stock exchange can be achieved by employing certain measures that would attract more firms to list or trade their shares publicly.

Supporting literature from Agyeman (2013), Benimadhu (2003), and the work of Subrahmanyam and Titman (1999) proves that the number of listed firms on the Ghana stock exchange just like other exchanges has an effect on its investor base and active investor participation on the exchange.

4.6 Do firms have plans to list?

One of the specific objectives of this study is to encourage firms to float their shares on the Ghana Stock Exchange by defining clearly the benefits or advantages of listing. However, it must be noted that, firms cannot be forced to list since listing is a business decision. Due to this fact, a qualitative section was included in the survey to find out whether firms have the plans of listing on the exchange in the future.

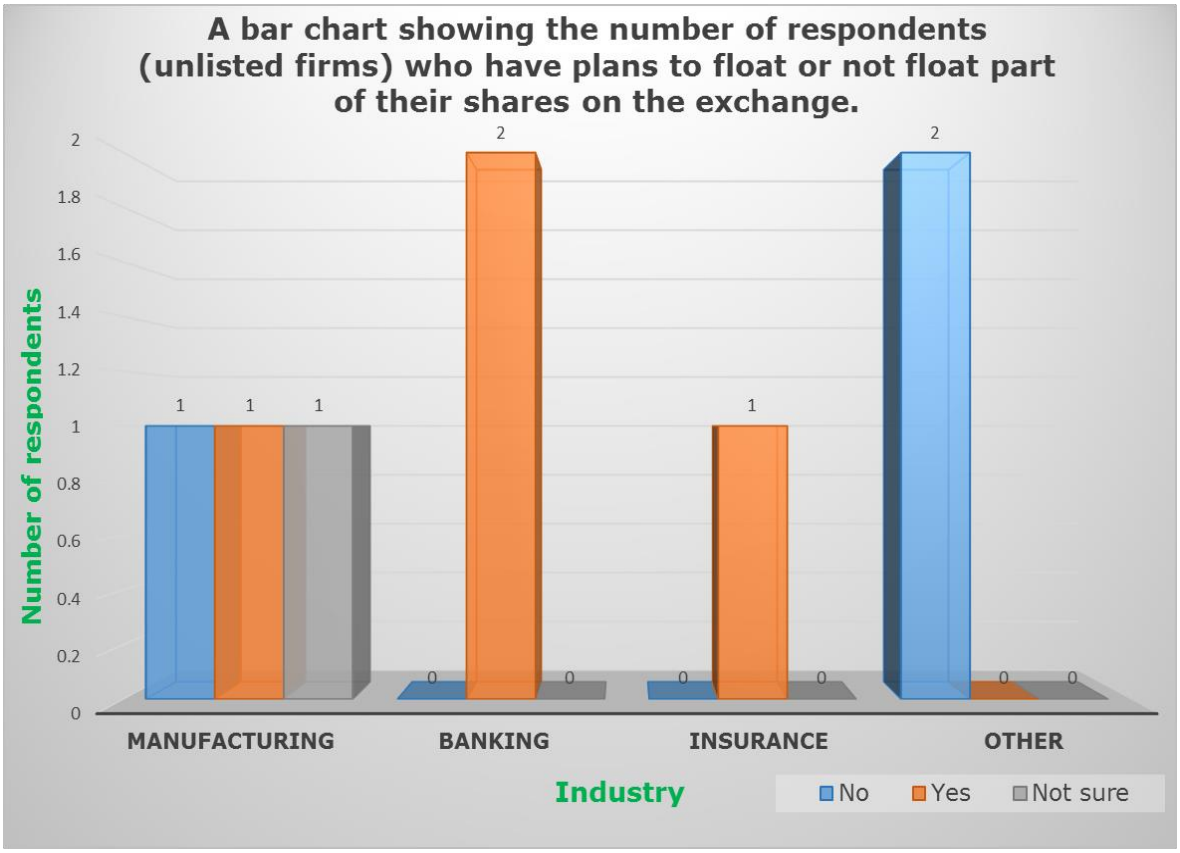

Figure 3: Respondents who have plans to list or not list on the exchange.

As presented in Figure 3, four out of eight respondents representing 50% of responses, confirmed that they want to list on the exchange in the future. That response came from a manufacturing company, two banks and an insurance company. Three firms had no plans of listing due to reasons already discussed above. The response came from two generator companies and one manufacturing company. One firm in the manufacturing industry answered not sure if shares would be floated any time soon. To conclude using response from the column chart below, majority of the respondents would be attracted to list if the measures discussed in this section are employed.

Chapter 5

Conclusion and Recommendation

5.1 Introduction

This chapter gives a summary of data analyzed and conclusions that were drawn from conducting the research. Based on the findings, recommendations have also been made on how to increase the number of listed firms on the exchange.

5.2 Summary of findings

The study seeks to find the factors that account for the low equity listing on the Ghana Stock Exchange and explore measures that can be employed to increase the number of firms listed on the exchange.

The Ghanaian business environment is conducive and has contributed immensely to the development of the private sector. Many companies in one way or the other seek capital to expand operations or for other purposes yet, very few firms think of the exchange as a source of raising long term capital. Due to this, very few firms in Ghana float part of their shares on the exchange. The Ghana Stock Exchange is performing relatively well despite economic downturns and debt problems in the Eurozone. With such performance, it is expected that more firms strive to list on the exchange and benefit from being a listed firm.

5.2.1 Factors that account for the low equity listing

As per results from the study, the low equity listing on the Ghana stock exchange can be attributed to a number of factors. These factors in descending order (highest to lowest frequency) include the lack of public education

regarding activities on the exchange, the use of alternative financing options such as debt and internal equity, fear to lose control of business to the public, cost concerns, listed on other exchanges, and lastly, the need to restructure operations to meet criteria for listing.

5.2.2 Measures that can be employed to attract firms to list

Findings from this research proves that, there are a number of measures that can be employed to attract more firms to list. Among these measures are, more education about activities on the exchange, cost reductions in terms of listing and other fees, active promotion of the exchange by the Ghanaian government, market efficiency and finally when the firm has the need to source capital in the local currency (cedi). Some firms have plans to list if measures discussed in this study are adopted to make the exchange more attractive.

5.3 Conclusion

Perceptions of individuals and press releases have stated that, the major reason why firms in Ghana are not listed is because of cultural behaviour, which causes managers of family owned and state owned businesses to fear to lose control of their businesses to the public. This perception has been disproved based on findings from this study. Also, contrary to the pecking order theory by Myers and Majluf (1984), firms selected for this study do not necessarily follow a chronological order of financing. Firms in Ghana decide to use debt or equity based on the type of project they want to finance and its associated cost. They do not necessarily use internal equity before debt when they need additional funds.

In conclusion, these firms are not listed or have not issued external equity not because they have not exhausted the other two options (internal equity and debt) or because they fear to lose control but greatly because they have minimum knowledge with regards to activities on the exchange or advantages of listing.

Other factors that can be attributed to the reasons why firms are not listed as established in this research and supported by the tradeoff theory propounded by Bharath and Dittmar (2006) and works of authors such as Pagano et al (2002) and Irving (2000), have been arranged in descending order (highest to lowest frequency) based on responses from selected companies. These factor include cost concerns, listed on other exchanges and the need to restructure operations to meet criteria of listing.

The implication of low equity listing is an inefficient market which would discourage investment opportunities and would affect the Ghanaian economy. In essence, results of this study should be taken into consideration by stakeholders so as to ensure an increase in firm and investor participation to boost the performance of the exchange and the Ghanaian economy over time.

5.4 Recommendation

As per the findings gathered during the research, the following recommendation were deduced.

Firstly, the Government must actively promote the activities of the exchange by offloading State Owned Enterprises onto the exchange. Aside its increase of the number of Government owned enterprises on the exchange, it would go a

long way to boost investor confidence on the exchange and contribute to the performance of the exchange on the international market.

Furthermore, Government and monetary authorities must make efforts to encourage the activities of private equities and venture capitalist in Ghana. Government and monetary authorities can provide these entities with tax rebates or flexible loans to allow them assist firms to start their own businesses without any difficulties or financial constraints. When these entities want to exit the business, they float part of the existing company's shares on the exchange, recoup any profits made after payments of loans have been made to these monetary authorities. A company such as Microsoft listed on the New York Stock Exchange in the United States of America started through a venture capitalist initiative. It is a very successful listed company today. Private equities and venture capitalist firms must be encouraged to exit through the exchange.

More so, the exchange must consider integrating with other African stock markets to give investors the opportunity to diversify and to listed companies, the opportunity to access a bigger pool of funds to raise capital for their businesses. Also, to make the exchanges more viable instruments for private sector activities.

Also, more public education is needed on how the stock exchange operates. The stock exchange must constantly use the media or other communication channels to educate the public on the benefits of listing, criteria for listing, among others. Currently, the channel being employed which is the use of the GSE website to provide information to the public is not proving effective thus,

officials and regulators of the exchange must come up with more innovative channels to create awareness about activities on the exchange. As a recommendation, more radio, TV and social media advertisements could be employed particularly to attract small scaled and medium enterprises to list on the GAX. Also, constant visits or emails to large firms could also be employed to educate the managers on the benefits of listing on the main exchange. As more firms become knowledgeable about activities on the stock market, more firms in Ghana would be encouraged to float part of their shares on the exchange to raise capital for expansion into bigger market segments and other operations.

5.5 Future studies

The objectives of this study is to investigate the factors that account for the low equity listing on the Ghana Stock Exchange and explore the various measures that can be employed to encourage more firms to float part of their shares on the exchange. However, further research is needed to explore the benefits and challenges the Ghana Stock Exchange would encounter from integrating with other stock exchanges in Africa.

Bibliography

African Development Bank Group.(2013).African Economic Outlook: Kenya.Retrieved from African Development Bank Group on October 28, 2013:http://www.afdb.org/en/countries/east-africa/kenya/kenya-economic-outlook/

Agyeman, C.A. (2010).How the Ghana Stock Exchange can be improved. (Unpublished dissertation). Ashesi University College, Ghana.

Alagidede, P., & Panagiotidis, T. (2009). Calendar Anomalies in the Ghana Stock Exchange. Journal of Emmerging Market Finance, 1-24.

Benimadhu, S. (2003). Challenges facing African capital markets. Presentation at UNECA Forum. Johannesburg. Retrieved on October 28,2013:http://www.uneca.org/eca_resources/major_eca_websites/CMD/workshop/Challenges/facing/African/Capital/Markets/UNECAOct2003.ppt

Bharath, S. T., & Dittmar, A. K. (2006). "To Be or Not to Be (Public)." University of Michigan Ross School of Business Research Paper; EFA 2007 Ljubljana Meetings Paper; AFA 2008 New Orleans Meetings Paper. Available at SSRN: http://ssrn.com/abstract=951710.

Ghana Stock Exchange. (2013). Listed companies: Ghana Stock Exchange. Retrieved on October 17, 2013 from Ghana Stock Exchange Web site: http://www.gse.com.gh/index1.php?linkid=46

Irving, J.(2000).Africa's struggling stock exchanges: Boost to economic development or "costly irrelevance"? African Recovery, pp. 1-3.

Kinnear, T., & Taylor, J. (1997). Marketing Research: An Applied Approach. McGraw-Hill, International Edition

McNamara, C. (1999). PhD. General Guidelines for Conducting Interviews, Minnesota

Mensah, M., Awunyo-Vitor, D., & Sey, E. W. (2012). Challenges and prospects of the Ghana Stock Exchange. (Published dissertation). Kwame Nkrumah University of Science and Technology & Wisconsin International University College, Ghana. 1-9.

Myers, S. C., & Majluf, N.S. (1984). "Corporate Financing and Investment Decisions When Firms Have Information That Investors Do Not Have." Journal of Financial Economics 13, 187–221.

Owusu-Adjei, K. (2013). An analysis of market efficiency in Ghana and how it affects stock trading activity. (Unpublished dissertation). Ashesi University College, Ghana.

Pagano, M., Röell, A., & Zechner, J. (2002). The Geography of Equity Listing: Why Do Companies List Abroad? The journal of finance, 2686- 2687

Pastor, L., & Veronesi, P. (2005). Rational IPO Waves, Journal of Finance, forthcoming.

Qian, Y. (1996). 'Enterprise reform in China: Agency problems and political control', Economics of Transition, 4(2) p. 422–47.

Robson, C. (1993). Real World Research .Blackwell, Oxford.

Saranthakos, S. (2005). Social Research (Vol. 3). New York, United States of America: Palgrave Macmillan

Schiozer, R., Oliveira, R.F., & Saito, R. (2010). "Why do Banks go Public? Evidence from the 2005-2007 wave of Brazilian Bank IPOs," Central Bank of Brazil working paper.

Subrahmanyam, A., & Titman, S. (1999). The Going-Public Decision and the Development of Financial Markets. The Journal of Finance, 4-29.

The Heritage Foundation, Wall Street Journal. (2013). 2013 Index of Economic Freedom : Ghana & Kenya. Retrieved on November 14, 2013 from The Heritage Foundation in partnership with The Wall Street Journal Website: http://www.heritage.org/index/country/ghana

The World Bank Group. (2012). Data: Ease of doing business index. Retrieved on November 14, 2013 from The World Bank Group Website: http://data.worldbank.org/indicator/IC.BUS.EASE.XQ

Trochim, W. M. (2006, 10 20). Research Methods Knowledge Base. Retrieved on November 10, 2013 from Web Centre for Social Research Methods : http://www.socialresearchmethods.net/kb/sampnon.php

ValueClick Inc. (2013). Capital market: Investopedia Dictionary. Retrieved on October 17, 2013 from Investopedia: http://www.investopedia.com/terms/c/capitalmarkets.asp

Wang, X., Xu, L. C., & Zhu, T. (2004). State-owned enterprises going public: The case of China. Economics of Transition Volume 12, 467–487.5. Appendix

Appendix

Interview Questions for Industry Professionals

This is an exploratory study to find out the reasons why many firms in Ghana do not float their shares on the exchange. The results of this interview are solely for academic purpose. All information provided will be confidential.

1. What are your impressions of the performance of the GSE Composite Index over the past five years (2008-2013)?

2. In your opinion, is the volume traded over the same period as above impressive?

3. How do you think the GSE would perform in the future?

4. In your opinion, what are the factors that account for the low equity listing on the exchange?

5. What can be done to attract unlisted firms to list on the exchange?

6. How does the presence of few firms discourage foreign investors from trading on the exchange?

7. What role does the Government play in attracting high utilization of the exchange?

8. What benefits do firms gain from floating part of their shares on the Ghana Stock Exchange?

Questionnaire for unlisted firms

This is a questionnaire for a survey on the factors that account for the low equity listing on the Ghana Stock Exchange (GSE). The results of this survey are solely for academic purposes. All information provided will be confidential. Thank you very much for your time.

Please tick the correct answer in the space provided

1. What industry does your business fit into?

   A) Manufacturing ( ) B) Mining and Petroleum ( )

   C) Banking ( ) D) Insurance ( )

   E) Agriculture ( ) F) Tourism ( )

   G) Other ( )……

2. How long has your company been in existence?

3. What is the minimum stated capital of your company?

   A) Less than GHC 10 million ( ) B) GHC 10-50 million ( )

   C) GHC 60-100 million ( ) C) Above GHC 100 million ( )

4. As a company, do you have an Audit sub-committee on the company's board of directors?

   A) Yes ( ) B) No ( )

5. If yes, how often are accounts audited?

   A) Monthly ( ) B) Quarterly ( )

   C) Bi-annually ( ) D) Annually ( )

6. What are your opinions about the Ghanaian Stock market?

A) Active ( ) B) Inactive ( )

C) Developed ( ) D) Underdeveloped ( )

7. In your opinion, is there enough information available to your company or the public about activities on the stock market?

A) Yes ( ) B) No ( )

8. If yes, do you know the criteria for listing on the Ghana Stock Exchange?

A) Yes ( ) B) No ( )

9. In your opinion, does your company meet this criteria?

A) Yes ( ) B) No ( )

10. If yes, does your company have any plans of listing on the exchange?

A) Yes ( ) B) No ( )

Please write your answer in the space provided

11. What factors account for your company not floating part of its shares on the exchange?

……

……

……

……

……

12. What factors would attract your company to list on the exchange?

……

……

……

……

……

……

……

……

……