

Full Length Research Paper

Determining The Factors That Prevent Small and Medium Enterprises From Listing On The Securities Exchange in Zambia

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Abstract

Small and Medium Enterprises (SMEs) are among the main sources of economic growth in developing countries (Kilonzo, 2011). They contribute largely to the employment sector of Zambia. These SMEs need to access finance in order to operate effectively. The Lusaka Securities Exchange (LuSE) was developed in Zambia to enable companies raise relatively cheaper long term capital. In 2014, the stock market in Zambia came up with a market known as the LuSE Alternative Market. It was established to create a more enabling platform for small and medium enterprises. However, despite the formation of the LuSE Alternative market, small and medium enterprises still prefer to obtain loans and external financing from banks to fund their businesses as compared to sourcing these finances from the capital market, which in actual sense is more affordable than the banks. Since the launch of the LuSE Alternative Market in 2014 no SME has been listed. This paper therefore sought to determine the factors preventing SMEs from listing on the stock exchange market. Determining the factors is important not only for the growth of SMEs but also the development of the Zambian capital market. This study adopted a descriptive survey in which respondents were asked to rank the rate at which the following four factors prevented them from listing: 1) information accessibility, 2) regulatory requirements, 3) corporate governance, and 4) desire to maintain one hundred percent control. The results show that access to information is a major factor that prevented SMEs from listing, followed by the desire to maintain control, regulations and then corporate governance.

Key words: SMEs, LuSE Alternative Market

Introduction

When a company seeks to develop, they need enough money to accomplish that development. If they have insufficient funds on their own to do this, they have to seek external sources to get those funds. These sources could either be private investment, a loan from the financial institution or financing from the capital markets. Traditionally, financial institutions have been the main source of finance. However, capital markets are being seen as an alternative for many corporations and individuals to get access to capital needed for growth. SMEs are the main source of economic growth in developing countries (Kilonzo, 2011). They contribute largely to the employment sector of Zambia. These SMEs need to access finance in order to operate effectively. The definition of a small business enterprise in Zambia according to the Micro, Small and Medium Enterprise Development Policy Small Enterprise (2008) is those companies whose annual turnover is between one fifty thousand Kwacha and eighty hundred thousand Kwacha (about 15,000 to 80,000 US dollars) or whose investment excluding land and building is between eighty thousand Kwacha and five hundred thousand (about 8,000 to 50,000 US dollar) for manufacturing or between one fifty thousand Kwacha and three hundred thousand for trading (about 5,000-30,000 US dollars) and whose number of employees is between 11 and 100.

The Lusaka Securities Exchange was developed in Zambia to enable companies raise relatively cheaper long term capital. In 2014, the stock market in Zambia came up with a market known as the LuSE Alternative Market. This market was made specifically for the purpose of SMEs. It was established to give them a platform to obtain long term finances at a reduced fee and also reduced requirements as compared to the actual LuSE. This gives SMEs an equal opportunity as large companies to have investors buy shares in these SMEs and hence have another cheaper source of finance and also it gives them the opportunity to use the capital market as a way of raising money to grow their businesses. However, despite the formation of the LuSE Alternative market, small and medium enterprises still prefer to obtain loans and external financing from the financial institution to fund their businesses as compared to sourcing these finances from the capital market which in actual sense is more affordable than the financial institution. Since the launch of the LuSE Alternative Market no SME has been listed.

This paper therefore sought to determine the factors preventing SMEs from listing on the stock exchange market. To determine whether the ability to access information about SME listing prevents SMEs from listing on LUSE. To determine whether the desire to maintain control of ownership prevents SMEs decision to get listed on LUSE. To determine whether corporate governance prevents SMEs from the listing of on LUSE. To determine whether regulations put by LUSE prevent SMEs from

listing on LuSE. Determining the factors that prevent SMEs from listing is important so that the policy makers can know how to help small companies list on the stock exchange which is a cheaper source of capital this will not only contribute to the growth of SMEs but also the Zambian capital market.

The Conceptual Framework

A conceptual framework is a group of concepts that are broadly defined and systematically organized to provide a focus, rationale and a tool for integration and interpretation of information (Achtenberg & Vrines, 2002). The aim of the study was to investigate the factors preventing SMEs from listing on the LuSE alternative market. From the literature reviewed, there are many factors that affect the decision of SMEs from listing on the stock market, but for the purpose of this research only the following were considered. That is; 1) the desire of business owners to maintain one hundred percent of control, 2) the knowledge that the owners have on the benefits that they can gain from listing on the Stock Exchange, 3) the regulations that the Lusaka Securities Exchange has put up for companies to get listed and 4) Corporate governance. Figure 1 below shows the conceptual framework for this study.

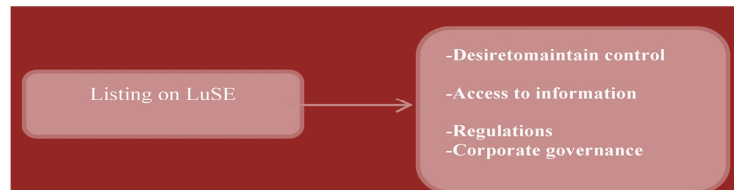


Fig 1. The conceptual framework

Definitions of variables

Desire to maintain full control

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 (Tetteh, 2014). Listing on the alternative market 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. In this study desire to maintain full control is defined as SMEs owner's unwillingness to share ownership of their business.

Access to information

Most scholars agree that information accessibility is a necessary condition for SMEs' willingness to list on the Alternative Securities Market. Mwarari and Ngugi (2013) assert that the more SMEs are able to access necessary information about the Alternative Securities Market the more likely they are willing to participate in the securities market. In this study the access to information was defined as the ability of SMEs, owners to access the information about the listing requirement on LuSE.

Regulations

There is a general consensus among countries that regulatory requirements are also critical in influencing SMEs' decision to list on the Alternative Securities Market. The success of the Alternative Securities Market is because of the balanced regulatory framework (London Stock Exchange, 2010). The flexibility of regulatory requirements has led to many SMEs lists on the Alternative Securities Market (Adjasi et al., 2011). In this study regulation was defined as the regulatory framework and requirement for listing on the LuSE alternative market.

Corporate governance

Corporate governance influences listing of SMEs if it is practiced properly. A study by Mwarai (2013) found, eight-five percent of the respondents believed that proper corporate governance practices positively influence the listing of SMEs on the stock market. In this study Corporate governance was defined as the structures and processes led by LuSE by which companies are directed and controlled. It makes companies more accountable and transparent to investors and gives them the tools to respond to stakeholder concerns. (Abor and Adjasi 2007)

Measurement of variables

The variables mentioned above were measured using the Likert scale. The respondents were asked to rate their views on how the factors 1) the desire of business owners to maintain full of control, 2) Access to information, 3) regulations and 4) Corporate governance affected their listing on LuSE. They were rating their views on five (5) Likert scale from strongly agree which was rated five (5) to strongly disagree which was rated one (1). This is in line with similar research who used the Likert scale during their study (Mwariri, and Ngugi (2013), Tetteh, (2014).)

Materials and methods

This study adopted a descriptive survey so as to ensure that complete description of the situations which prevents SMEs from listing is done. Lusaka province was used as the study area for this particular research. It was based on the registered SMEs located in Lusaka province. This population was obtained from Patents and Companies Registration Agency (PACRA). The population of enterprises located in Lusaka province was about 150,300 companies. The sample size for this research was calculated using the Yamene (1967) formula.

$$n = \frac{N}{1+N(e)^2}$$

Where; *n* is the sample size, *N* is the population size, and *e* is the level of precision. In this formula, *N* is 150, 300 which is the total number of enterprises registered and located in Lusaka Province and *e* is the error term which was put at 10%. Therefore, the confidence interval used was 90% and the level of significance used to measure was 10% or 0

$$n = \frac{N}{1+N(e)^2} = \frac{150,300}{1+150,300(0.1)^2} = 100.$$

Self-administered questionnaires were used to collect data from SME owner. Out of the 100 questionnaires that were distributed, 70 were collected. 14 of them were micro enterprises and so they did not apply to the study, which left only 56 questionnaires to be analyzed.

Results

The results presented below show questions that were asked and responses by SME owners in Lusaka Province.

Table 1: Number of employees

	Frequency	Percent
Between 11-50	43	76.8
Between 51-100	13	23.2
Total	56	100.0

According to the table, a total of 56 respondents answered the question “how may employees does the company have”? The respondents represented 100%, in which 43 respondents representing 76.8% stated that they have between 11-50 employees indicating that the company was a small enterprise while, 13 respondents of 23.2% stated that the number of employees they have is between 51-100 indicating that their company was a medium enterprise.

Table 2: Knowledge of LUSE-ALT market

	Frequency	Percent
Yes	18	32.1
No	38	67.9
Total	56	100.0

According to table 2, a total of 56 respondents answered the question “do you know about the LUSE-ALT market”? The respondents represented 100%, in which 18 respondents representing 32.1% stated that they had knowledge about the LUSE-ALT market that was established for SMEs, while 38 respondents of 67.9% stated that they had no knowledge about the LUSE-ALT market. According to the table, it can be concluded that the majority of SMEs are not aware that the LUSE has an alternative market that has been established to benefit SMEs.

Table 3: Knowledge of obtaining finance from LuSE

	Frequency	Percent
Yes	23	41.1
No	33	58.9
Total	56	100.0

According to table 3 above, a total of 56 respondents to the question “do you know you can obtain finance from LuSE”? .The respondents represented 100%, in which 23 respondents representing 41.1% stated that they are aware of the fact that they can obtain finance from the LuSE, while 33 respondents of 58.9% stated that they had no knowledge on the fact that they could obtain financing from LuSE for their businesses. The table indicates that a higher percentage of SMEs are not aware that they are able to obtain finance for their businesses from LuSE.

According to the table 4 below, a total of 56 respondents answered the question “do the regulations put up by LuSE prevent you from listing on LUSE?”. The study found that a majority of the respondents as indicated by 32.1% out of the total 100% were not sure whether regulations put up by LUSE prevent them from listing on the stock market. This may be because they do not know what regulations have been put up. The respondents represented by 30.4% indicated that they disagreed with the question as to whether regulations put up by LUSE prevent them from listing then 3 respondents represented by 5.4% show that they strongly disagree to the above question. 11 respondents as indicated by 19.6% agreed, while 7 respondents as indicated by 12.5% strongly agreed. Together it shows that 35.8% of the total respondents disagree with the above question while 31.1%. Agreed .

According to the table 5, a total of 56 respondents answered this question does corporate governance prevent you from listing on LUSE? According to the table above, the majority of the respondents as represented by 39.3% were not sure whether corporate governance prevents them from listing on the stock market. The reason could be that they lack knowledge about what corporate governance is. The respondents represented by 28.6% show that they disagreed with the question as to whether corporate governance prevents them from listing on LUSE. The respondents represented by 19.6% show that they strongly disagree with the above question. Only 10.7% of the respondents represented by 6 people agree that corporate governance prevents them from

listing on the stock market. One respondent out of the 56 represented by 1.8% stated that they strongly agreed to the above question.

Table 4: Regulations put up by LUSE prevent SME from the listing On LuSE

	Frequency	Percent
STRONGLY DISAGREE	3	5.4
DISAGREE	17	30.4
NOT SURE	18	32.1
AGREE	11	19.6
STRONGLY AGREE	7	12.5
Total	56	100.0

Table 5: Corporate governance prevents SMEs from listing on LUSE.

	Frequency	Percent
STRONGLY DISAGREE	11	19.6
DISAGREE	16	28.6
NOT SURE	22	39.3
AGREE	6	10.7
STRONGLY AGREE	1	1.8
Total	56	100.0

Table 6: Desire to maintain control of ownership prevent SME from listing on LUSE

	Frequency	Percent
STRONGLY DISAGREE	7	12.5
DISAGREE	12	21.4
NOT SURE	9	16.1
AGREE	18	32.1
STRONGLY AGREE	10	17.9
Total	56	100.0

From the findings on whether the desire to maintain control of ownership of their businesses prevents SMEs from listing on LUSE, the study found that the majority of the respondents as shown by 32.1% believe and agree that the desire to maintain control does prevent them from listing on the stock market. 17.9% strongly agree which brings the level of agreement to 50%. The other 50% is divided amongst the 12.5% who strongly disagree, 21.4% who disagree and 16.1% who were not sure.

Table 7: Ability to access information prevent SME from listing on LUSE

	Frequency	Percent
STRONGLY DISAGREE	2	3.6
DISAGREE	8	14.3
NOT SURE	4	7.1
AGREE	15	26.8
STRONGLY AGREE	27	48.2
Total	56	100.0

From the findings on the question as to whether the ability to access information prevents SMEs from listing on LUSE, the study shows that the majority of the respondents represented by 48.2% indicated that they strongly agreed that access to information prevents SMEs from listing on LUSE. This goes to show that majority of SMEs are not aware of the opportunity they have to be able to obtain finance from the stock market by listing on LUSE. 26.8% also agree bringing the total level of agreement to 75%. 14.3% represents the respondents who disagree 3.6% represent the respondents who strongly disagree and 7.1% were not sure.

From the Fig 2 below, the study shows that from the five options given, the majority of the respondents agreed and agreed that access information prevented SMEs from listing to a large extent, followed by the desire to maintain control, regulations and then corporate governance. From the table and the chart above, the following information was drawn showing the averages between those who agreed and strongly agreed as well as those who disagreed and strongly disagreed for each of the variables.

From Fig 3 below, the study shows that of the four factors given, the majority of the respondents representing an average response of 3.9 agreed that access to information prevented SMEs from listing to a large extent, followed by the desire to maintain control with an average response of 3.1, regulations 2.9 on average and lastly corporate governance with 2.3. This result is similar to Mwarari, and Ngugi,(2013), Chitekuteku, (2016), Mengich, Ndalira and Juma(2013).

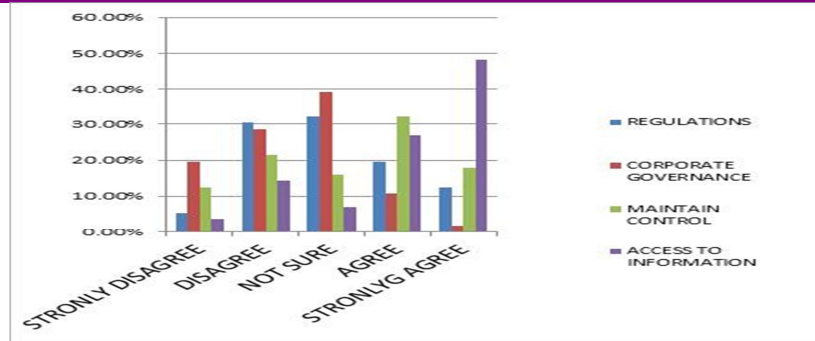


Fig 2. Summary of responses

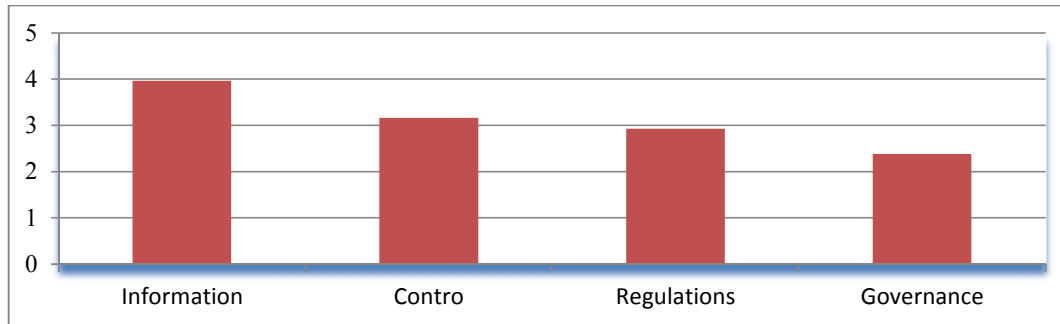


Fig 3. Average responses

Conclusion

This study has revealed that of the four factors that were assessed, the majority of the respondents said that access to information prevented SMEs from listing, followed by the desire to maintain control, regulation was third and last was corporate governance. SMEs also do not have adequate access to information that will help them understand the benefits of listing and how to obtain financing from the stock market. A good number of the respondents would desire to access long term financing, but they do not because they do not want to give up some of their shares to other shareholders rather they prefer to maintain full control of ownership. From the responses, it was observed that the SMEs were not fully aware of how corporate governance may influence their listing on the Lusaka Securities Exchange.

The study recommends that there is a need for the Lusaka Securities Exchange to disseminate more information about the alternative market in order to make clear exactly what the regulations are or to make clear the terms and conditions that are necessary for SMEs to list on the stock market. The stock market should also come up with the means in which they can encourage SMEs to list. The study recommends that SME owners should not be too rigid to the idea of giving up a few shares to investors in order to gain the finance that is needed. SMEs should weigh the benefits of getting listed. The study further recommends that SMEs should consider hiring employees who can search for information on the stock markets in order for them to have the necessary information.

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