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The Impact of Institutional Factors on the SMEs desire to List on the Securities Exchange

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Abstract: Small and Medium Enterprises (SMEs) are the main source of economic growth in developing countries and contribute largely to employment creation (Kilonzo, 2011). One of the prerequisites for successful operation of SMEs is access to finance. 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 Louis 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 assess the effect of access to information, the desire to maintain control, regulation and corporate governance have on the desire to list on the LuSE Alternative Market. This study adopted a descriptive survey and multiple regression was used ton analyse the data. The findings of this study revealed that of the four Factors that were assessed, access to information and following regulations have a positive significant effect on the desire to list. Desire to maintain full control has a significant negative effect on the desire to list. While corporate governance has no significant effect on the desire to list, although the result could not be conclusive because most of the respondents were not sure of what corporate governance is.
Keywords: SMEs, LuSE Altanative Market

INTRODUCTION

When a company seeks to develop, they need enough money to accomplish that development [15]. 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 investors, 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 [1]. They contribute largely to the employment sector of Zambia. These SMEs needs to access finance in order to operate effectively. Table 1 below shows the classification of MSMEs in Zambia.

Table-1: Classification of MSMEs

Business size	Number of Employees	Sales Turnover
Micro Enterprise	10 or less	K150, 000 ($27,000)
Small Enterprise	11 to 50	K150,000-K250,000 ($27,00-$45,000)
Medium Enterprise	51 to 80	K300,000-K800,00 ($54,000-$145,000

***Source: MSME policy* (2010)**

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 [14]. 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 study was an attempt to assess the effect of institutional factors such as access to information, the desire to maintain control, regulation and corporate governance have on the desire to list on the LuSE Alternative Market.

LITERATURE REVIEW

A number of studies carried out in this area have revealed the effect that Control, knowledge corporate governance has on the desire to list. One such study is one by Mengich, Ndalira and Juma [2] on the challenges facing uptake of equity financing by small and micro enterprises in Kenya. The analysed factors like, access to markets, transaction costs, legal and regulatory framework and access to information. The study found that there was a positive significant relationship between the access to markets and uptake of equity finance of SMEs in Nairobi. The relationship between the transaction cost and uptake of equity finance was also found to be significant and positive. In addition, the results of the study showed that there was a significant relationship between regulatory framework and uptake of equity finance. The result further indicated that there is a significant relationship between information access and uptake of equity finance. Respondents were picked by simple random sampling. Data was collected using questionnaires. The data collected was evaluated, and analysed using statistical tools and content.

Mwarari, and Ngugi [3], examined the factors influencing listing of SMEs in the securities market as a source of expansion capital in Kenya. In the descriptive survey, they examined twenty respondents drawn from a population of 80 respondents based in Nairobi. Among the factors which they considered were, Access to information, terms and conditions of listing, alternative investment segment and corporate governance. The study revealed that access to information was the major factor influence listing of SMEs. The study also found a strong positive relationship between the study variables.

In their study, García-Pérez-de-Lema *at al*. [4] discussed the advantages and barriers perceived by managers of unlisted small and medium sized companies to access to an Alternative Stock Market in Spain. They performed an empirical study based on data obtained from a survey of 102 Spanish companies. They observe that the most important barriers were: resistance to change of owners, the loss of control and resistance to change of managers.

A study done by the world federation of exchange identified globally consistent barriers and opportunities for enhancing access to equity market finance. The research results were derived from surveys of companies, investors and market intermediaries across five developed and emerging market jurisdictions. The primary findings revealed that, the company decision to list extends beyond a desire to raise finance; companies perceive and experience compliance with initial and ongoing listing requirements as burdensome; investors would value better quality information about SMEs, and all entities attach importance to secondary market liquidity of company shares.

In the survey research in Ghana conducted by Tetteh [5] revealed two things. Firstly SME operators were unwilling to go public and share ownership of their business with 20 other people. Secondly, SMEs were not motivated and had low confidence in the market. As a result, they were not ready to incur the risks that come with going public and listing on the market.

In a recent study, Chitekuteku [6], did an assessment of the factors that determine the Listing of small to medium Enterprises on the Zimbabwean Alternative Securities Market using a quantitative approach. Data was collected from a sample size of three hundred and thirty (330) SMEs which were selected through stratified random sampling. Factor analysis was used to identify the factors which determine the listing of SMEs on the Alternative Securities Market. Factors which emerged were, information accessibility, regulatory requirements, corporate governance, and SMEs support platforms. The findings indicated that information accessibility, regulatory requirements, corporate governance, and SMEs support platforms are important in determining SMEs listing[16].

Finally, another study done recently in Europe The provided an in–depth analysis of SMEs access to capital markets among Euro zone countries [7]. They found that the major factors were the size and profitability of the firm.

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 [8]. The aim of the study was to investigate effects of institutional factors namely; access to information, the desire to maintain control, regulation and corporate governance have on the desire to list on the LuSE Alternative Market. These four variables are the independent variables for which any change or manipulation of the variable results in a change of the dependent variable, thus increasing or decreasing the ability of SMEs to list on LuSE. This relationship is shown Figure 1 below showing the conceptual framework for this study.

From the conceptual framework below, desire to list on a list is the dependent variable while, Desire to maintain full control, access to information, regulations and corporate governance are independent variables.

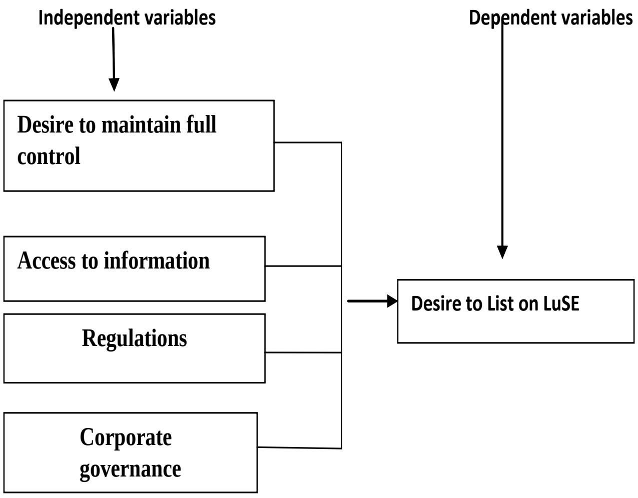

Fig-1: **The conceptual framework**

HYPOTHESIS

Due to the fact that four independent factors are being tested, this research tested the following hypotheses.

Null hypothesis 1: Desire for control, access to information, regulations and corporate governance don't jointly influence SMEs desire to list on LuSE.

Null hypothesis 2: Desire to maintain control of ownership does not prevent SMEs from listing on LuSE

Null hypothesis 3: ability to access information on the listing of SMEs does not prevent SMEs from listing on LuSE.

Null hypothesis 4: Regulations put up by LuSE do not prevent SMEs from listing on LuSE.

Null hypothesis 5: Corporate governance does not prevent SMEs from listing on LUSE.

F tests and T tests for Multiple Regression were used to test the above tests at the 90 % level of significance as the error term used in the sample was 10%.

Definitions of variables

Desire to list on LuSE

In this study, the desire to list was defined as the SMEs owner's willingness to raise capital through the sale of company shares at LuSE Alternative Market.

Desire To Maintain Full Control.

Most SMEs 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 [5]. Listing on the stock market means sharing ownership with other people who are not related to the owners. To the SMES owners this implies a risky venture and reduces their willingness to go public. Therefore, 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. According to Mwarari and Ngugi [3], 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 [9]. The flexibility of regulatory requirements has led to many SMEs list on the alternative securities market [10]. In this study regulation was defined as the ability to follow 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 [3] 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 laid down by LuSE were 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 [11].

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 studies conducted in this regard [3,5].

RESEARCH METHODOLOGY

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 [12] 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 owners .Out of the 100 questionnaires that were distributed, 70 were collected and 14 of them were micro enterprises and so they did not apply to the study, this left only 56 questionnaires to be analysed.

RESULTS

Data analysis followed the following six steps (1) Data Descriptive statistics (2) Diagnostic tests for the variables 3) Regression test (4) Regression model diagnostic tests (5) Regression model interpretation (6) Discussion of results with respect to hypotheses

Data Descriptive statistics

Table-2: Data Descriptive statistics.

Variable	Mean	Standard deviation
Desire to list	3.83	1.28
Access to Information	3.96	1.13
Desire to Maintain control	3.16	1.35
Regulations	2.92	1.10

Table 2 shows the data descriptive statistic Notable is the mean which is respresenting the average response rate from the respondents on which of the ~~for~~ four factors mostly hindered SME owners from listing at LuSE.The analysis of the data shows tha to a large extent majority of the respondents representing an average response of 3.96 agreed that access to information prevented SMEs from listing, followed by the desire to maintain control with an average response of 3.16, regulations had 2.92 on average and lastly corporate governance with 2.38.This result is similar to other studies (Mwarari & Ngugi, 2013; Mengich et al, 2013: Chitekuteku, 2016). The mean response is presented in Fig 2 below.

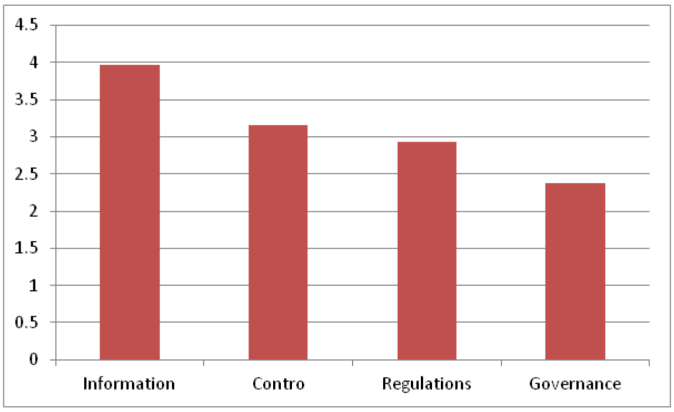

Fig-2: average responses on the factors that hinder listing.

Diagnostic tests for the variables

It is important to carry out diagnostic tests before proceeding to estimate the parameters of the models because diagnostic tests reveal whether or not there are problems that would lead to inaccurate estimated parameters. If there are such problems and inaccurate parameters are estimated, this would ultimately lead to wrong or rather inaccurate results, and hence wrong or inaccurate conclusions and recommendations. The data diagonistic test that were done are the normality tests of the dependent variable (desire to list) and the Multicollinearity test for the four independent variables.

a) Normality of dependent variable. A very important assumption in regression is that the dependent variable is normally distributed. The presence of normality means that the dependent variable was normally distributed. The absence of normality means that the greatest frequency of scores is not around or in the middle. Doing estimation with the dependent variable not normally distributed gives wrong standard errors of coefficients. As these are used as denominators in such tests as T-tests and F- tests, it means that such test statistics would be inaccurate and lead to wrong decisions about hypotheses. In this study test for normality was done using the Jarque-Bera statistics of Eviews7.If the Jarque-Bera probability test is non-significant ($p > 0.05$), it tells that the distribution in the sample is not significantly different from a normal distribution [13]. The Jarque-Bera statists of 2.203 with the probability of 0.126 were observed, indicating that the dependent variable, desire to list was normally distributed.

(b) Multicollinearity: Before presenting the regression models, one should inspect if there are excessive correlations between the independent variables. The correlation matrix can be scanned as a preliminary look for multicollinearity. To avoid multicollinearity in the sample, there should be no substantial correlations ($R > 0.9$) between the predictors or independent variables [13]. The presence of multicollinearlity means that some of the independent variables are correlated. Doing estimation without correcting for this problem gives wrong standard errors of coefficients. As these are used as denominators in such tests as T-tests, it means that such test statistics would be inaccurate and lead to wrong decisions about hypotheses. In this study the test for collinearity was done using correlation analysis of independent variables. The correlation matrix in Table 3 shows that there were no variables that had excessive correlations between them.

Table-3: Correlation statistics

Variable	Desire	Info	control	Reg	C.govern
Desire	1.00	0.32	-0.30	0.43	0.06
Information	0.32	1.00	0.31	0.10	0.14
Control	-0.30	0.31	1.00	-0.46	0.06
Regulations	0.43	0.10	-0.46	1.00	0.04
Governance	0.06	0.14	0.06	0.04	1.00

Although regression and correlation must be treated as different things, one can scan the correlation matrix in order to see potential relations that may also show up in the regression model. From table 2 it can be noticed that desires to list positively correlated with all the independent variables except for desire to maintain control. Comparable results were observed by Mwarari, and Ngugi, [3], and Mengich, Ndalira and Juma [2].

REGRESSION TEST

After doing model data diagnostics the regression was done. Desire to list on LuSE is the dependent variable, while desire to maintain full control, access to information, regulations and corporate governance are independent variables. Table 4 shows the summary of the regression output that was obtained.

Table 4: Summary of the regression output.

Variable	Coefficient	T Statistic	Prob
C	2.094121	2.552491	0.0138
Access to Information	0.291249	3.083141	0.0033
Desire to Maintain control	-0.296755	-2.188339	0.0333
Regulations	0.447411	1.829189	0.0733
Corporate governance	0.023144	0.146300	0.8843
R-squared	0.332484		
Adjusted R-squared	0.279083		
F-statistic	6.226143		0.000381

Regression model diagnostic tests

To confirm the Validity of the model, the following residual diagnostic tests were done, heteroskedasticity, Serial correlation and normality. If the statistic is non-significant ($p > 0.05$), it means that the test is satisfied. The results in table 4 Shows that all the tests were satisfied.

Table-5: Model Diagonistic

Diagnostic Tests	Test done	Coefficient	Prob.
Jarque Bera	Normality	2.12635	0.3553
Breusch pagan Godfrey	Heteroskedasticity	R-squared 6.5513	0.1616
Breusch-Godfrey LM	Serial Correlation	R-squared 0.06407	0.9685

Regression model interpretation

Adjusted R squared is the coefficient of determination which explains the variation in the dependent variable due to changes in the independent variable, from the findings in the above table 3 the value of adjusted R squared was 0.279 an indication that there was variation of 27.9% in dependent variable due to changes in the independent variables. This shows that about 28% change in the desire to list could be accounted for by the changes in access to information, desire for full control, regulations and corporate governance. R-squared is the correlation coefficient, which shows the relationship between the study variables. From the findings shown in table 3 above, there was a weak positive relationship of 33% between the desire to list and the independent variables. Comparable results were observed by Mwarari, and Ngugi [3], although for them it was a strong positive relationship.

Since more than 50% of the variable coefficients are significant and the F statistic of 6.2261 has a significant P value of 0.000381 it indicates that all the independent variables jointly explains some variation in the dependent variable, hence the model could be used for forecasting.

The regression model is presented equation the below.

$$DL=2.09+\ 0.29inf\ +-0.29cont\ +0.44reg+0.02cg + E$$

Where DL: is desire to list

Inf: is access to information

cont: is desire for full control

reg : is regulations

cg: is corporate governance.

From the above regression equation, it was revealed that holding access to information, desire for full control, regulations and corporate governance to a constant zero, desire to list would be 2.09 units. Furthermore, holding desire for full control, regulations and corporate governance to a constant zero, a unit increase in access to information would lead to increase in desire to list by 0.29 units. Holding access to information, regulations and corporate governing to a constant zero, a unit increase in the desire for full control would lead to a decrease in desire to list by 0.29 units.

Holding access to information, desire for full control and corporate governance to a constant zero, a unit increase in following the regulation would would lead to an increase in desire to list by 0.44 units. Finally, holding access to information, desire for full control and regulation to a constant zero, a unit increase in good corporate governance would lead to an increase in desire to list by 0.02 units. This is similar to Mwarari, and Ngugi [3].

Discussion of results with respect to hypotheses

This research tested the following hypotheses.

Null hypothesis 1: Desire for control, Access to information, regulations and corporate governance do not jointly influence SMEs desire to list on LuSE.

Since the F statistic of 6.2261 has a significant P value of 0.000381 this indicates that all the independent variables desire for control, Access to information, regulations and corporate governance jointly explains some variation in the dependent variable. Hence the Null hypothesis is rejected.

Null hypothesis 2: Desire to maintain full control of ownership does not prevent SMEs from listing on LuSE

Since the t statistic for desire to maintain control of ownership is -2.1.88 and a negative coefficient of 0.29 have a significant P value of 0.033 it indicates that desire to maintain control of ownership has a significant negative effect on desire to list, hence the Null hypothesis is rejected

Null hypothesis 3: Ability to access information on the listing of SMEs does not prevent SMEs from listing on LuSE.

Since the t statistic for access to information is 3.083 and a positive coefficient of 0.29 have a significant P value of 0.0033 it indicates that access to information has a significant positive effect on desire to list, hence the Null hypothesis is rejected.

Null hypothesis4: Regulations put up by LuSE do not prevent SMEs from listing on LuSE.

Since the t statistic for regulations is 1.829 and a positive coefficient of 0.4474 have a significant P value of 0.0733 (confidence interval was 0.9) it indicates that following regulations, has a significant positive effect on the desire to list, hence the Null hypothesis is rejected.

Null hypothesis 5: Corporate governance does not prevent SMEs from listing on LuSE.

Since the t statistic for corporate governance is 0.1463 and a positive coefficient of 0.0.023 have an insignificant P value of 0.884 it indicates that good corporate governance has an insignificant positive effect on desire to list, hence the Null hypothesis is accepted. The result for corporate governance could not be conclusive because most of the respondents were not sure of what corporate governance is.

CONCLUSION

This study has revealed that of the four factors that were assessed, access to information and regulations have a positive significant effect on the desire to list. Desire to maintain full control has a significant negative effect on the desire to list. While corporate governance has no significant effect on the desire to list, although the result could not be conclusive because most of the respondents were not sure of what corporate governance is.

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 its regulations are and 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 focus on the benefits of getting listed. The study further recommends that SMEs should consider hiring employees who can search and understand for information on the stock markets in order for them to have the necessary information.

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