Emerging Markets Review 22 (2015) 154–175

Contents lists available at ScienceDirect

Emerging Markets Review

journal homepage: www.elsevier.com/locate/emr

Determinants of corporate listings on stock markets in Sub-Saharan Africa: Evidence from Ghana☆

Moses Acquaah *

Bryan School of Business & Economics, University of North Carolina-Greensboro, P. O. Box 26170, Greensboro, NC 27402, USA

ARTICLE INFO

Article history:
Received 28 February 2013
Received in revised form 28 September 2014
Accepted 15 October 2014
Available online 23 October 2014

JEL classification:
G15
G20
M10
O16

Keywords:
Corporate listings
Stock market efficiency
Ownership and control rights
Information disclosure requirements
Stock market development
Sub-Saharan Africa

ABSTRACT

Sub-Saharan Africa (SSA) economies have established stock markets to encourage the mobilization of domestic funds and attract foreign capital in-flows for corporate investment and growth. But domestic corporate listings on stock markets have been abysmal. This study examines the reasons behind the low patronage of stock markets by domestic firms in SSA using Ghana as a case study. Data for the study was obtained from 110 out of the 200 largest firms in Ghana and included firms which were listed on the stock market and unlisted firms over three time-periods from 2002 to 2009. The findings show that knowledge about stock market dynamics and financial institutions' support encourages listing on the stock market. However, extensive information and disclosure costs requirements, and loss of ownership and control discourage listing on the stock market.

1. Introduction

Firms in Sub-Saharan African economies face the challenge of mobilizing and increasing domestic and international funds for corporate investment activities and development. The increase in the globalization of financial markets in the late 1990's and 2000's provided firms in emerging economies with the opportunity to at least mobilize funds from international sources. This increased globalization of financial markets led

☆ An earlier version of this manuscript was presented at the Academy of Management Annual Meeting, San Antonio, TX, USA, August 2011.
* Tel.: +1 336 334 5305.
E-mail address: acquaah@uncg.edu.

http://dx.doi.org/10.1016/j.ememar.2014.10.002
1566-0141/

many Sub-Saharan African countries to promote and implement structural changes in their economies. The structural changes replaced decades of excessive government intervention, regulation, and protectionist policies with market-oriented economic policies of free trade and economic integration, lower tariff structures, privatization of state-owned enterprises, strengthening of the domestic financial systems, establishment of stock markets, the liberalization of already established stock markets, and the provision of attractive investment incentives.

Financial economists have argued that in a market-oriented economy, a stock market and the associated financial institutions perform the functions of mobilizing domestic savings, allocating financial resources for investment, monitoring managers and exerting corporate control, facilitating the management of risk, and facilitating the exchange of goods and services (Adelegan, 2008; Levine, 1996, 1997; Samuel, 2001; Wurgler, 2000). Thus, armed with the experiences of the emerging stock markets in Southeastern Asian economies and their role in improving corporate effectiveness and performance (Claessens, Djankov and Xu, 2000b), many Sub-Saharan African economies established stock markets and/or liberalized their stock markets by allowing foreigners to purchase shares on their domestic stock markets so as to encourage and improve the mobilization of domestic savings and attract the in-flow of international capital to promote the development of private business enterprises (Hearn and Piesse, 2009). Despite the efforts of the governments in Sub-Saharan African economies to provide more financing choices (in the form of both debt and equity, instead of the traditional reliance on debt alone) for firms through the establishment and/or liberalization of stock markets, most domestic firms have refused to go public by enlisting on the stock market. This may be due to the "extreme illiquidity and segmentation" (Hearn and Piesse, 2009: 257) of the stock markets as a source of equity capital for financing business activities. For example, it was estimated that equity finance accounted for about 12% of total asset growth of listed companies in Ghana between 1995 and 2002; 25% in Zimbabwe between 1990 and 1999; and 40% between 1990 and 2000 in Nigeria (Adelegan, 2008; Yartey and Adjasi, 2007). Table 1A and 1B shows that in Sub-Saharan Africa only Nigeria and South Africa have more than 100 firms listed on their domestic stock markets as at the end of 2012. Moreover, only three countries – Mauritius, South Africa and Zimbabwe – have domestic stock markets where the market capitalization as a percentage of gross domestic product (GDP) exceeded 50% in 2012. Moreover, the total value of shares traded on the stock markets as a percentage of GDP is very small. Apart from South Africa where the total value of stocks traded on the stock markets was 81.5%, the total value of shares traded on each of the stock markets in Sub-Saharan Africa in 2012 was less than 5% of GDP (World Bank, 2013). These statistics show that not only are the market sizes of the stock market small, but they are also not actively engaging in activities that would provide equity financing choices to firms very easily.

This study explores the reasons behind the low level of patronage of the stock markets by domestic firms in Sub-Saharan Africa, using Ghana's experience as a case study. The data for this study comes from a sample of 110 firms out of the 200 largest firms in Ghana that completed the survey questionnaire

Table 1A
Listed companies on domestic stock markets in selected Sub-Saharan African countries.
Source: The World Bank (http://data.worldbank.org/indicator/CM.MKT.LDOM.NO). Assessed on September 15, 2014.

Country	1991	1995	2000	2005	2009	2010	2011	2012
Botswana	9	12	16	18	20	21	23	24
Cote d'Ivoire	25	31	41	39	38	38	33	37
Ghana	13	19	22	30	35	35	36	34
Kenya	53	56	57	47	55	53	58	57
Malawi	N/A	N/A	N/A	9	15	14	14	14
Mauritius	20	28	40	42	89	86	86	87
Namibia	N/A	10	13	13	7	7	7	7
Nigeria	142	181	195	214	214	215	196	192
South Africa	688	640	616	388	363	360	355	348
Swaziland	2	4	6	6	5	5	5	N/A
Tanzania	N/A	N/A	4	6	15	11	17	17
Uganda	N/A	N/A	N/A	5	8	8	8	10
Zambia	N/A	2	9	15	19	19	20	20
Zimbabwe	60	64	69	79	94	76	75	76

N/A = not available.