Journal Homepage: -www.journalijar.com
INTERNATIONAL JOURNAL OF ADVANCED RESEARCH (IJAR)
Article DOI:10.21474/IJAR01/3117
DOI URL: http://dx.doi.org/10.21474/IJAR01/3117
ISSN NO. 2320-5407

RESEARCH ARTICLE

EFFECTS OF INVESTOR BASE ON VALUE OF STOCK OF CROSS LISTED FIRMS: A CASEOF CROSS LISTED KENYAN FIRMS LISTED IN THE NSE.

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Manuscript Info

Manuscript History

Received: 01 December 2016
Final Accepted: 02 January 2017
Published: February 2017

Key words:-
Value of Stock, Investor base.

Abstract

This paper sought to investigate the effect of investor base on the value of stock of Cross-Listed Firms in the NSE. The study used an explanatory survey design.The target population comprised of all the seven cross listed Kenyan firms listed in the NSE namely: Equity bank, KCB, Kenya airways, Jubilee insurance, Centum Investment Ltd, Nation Media Company and the EABL. A census sampling technique was employed in selecting the companies from which the data was collected from in an effort to ensure that all the companies targeted were used to form the sample size. The researcher used documentary analysis as the main data collection method. The data was obtained through analysis from company's annual reports, internet and NSE journals. The data collected was analyzed using descriptive methods and inferential statistics. The study found out that an increase in the investor base (trading volume) and a decrease in price noisiness could have had an effect on stock value positively. It was concluded that cross listed firms acquired a considerable amount of assets after cross listing an aspect attributed to the increase in operations as a result of the popularity and an increasein market share acquired by the company.

Introduction:-

A stock that tends to trade at a lower price relative to its fundamentals (i.e. dividends, earnings, sales, etc.) is considered undervalued by a value investor. Common characteristics of such stocks include a high dividend yield, low price-to-book ratio and/or low price-to-earnings ratio. Firm value refers to the total economic value of a company, reflecting the value to be allocated to the company's shareholders and debt holders. It is calculated by adding the company's Equity Value and total net debt, (Dickinson, 2004).

Globally with the advent of globalization initiatives and deregulation of the financial landscape in the past decade, there has been a surge in cross-border listings by firms. In 2006, nearly 4700 firms cross listed on overseas exchanges globally, with the number of new foreign listings of around 1000 for that year (Hargis, 2008). Popular locations for foreign listing included the UK, the US and Japan. A decade later, the number of cross-listed firms had declined to 2837 firms in 2006, while the number of new foreign listings fell to 299, nearly a third of the 1997 levels. The financial performances of these companies have been able to improve as a result of cross listing. These

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companies have been able to improve and broaden their shareholders base and gained a greater financial strength that has made then to increase their capital (January, 2003).
Regional cross-listings in sub-Saharan Africa have been associated with expansion and the setting-up of operations in the host countries. In almost all cases, firms are large with a strong base in their home countries, and they first established operations in their host countries before deciding to cross-list. Many cross-listings are undertaken to expand operations in the host countries. Almost all the firms that are cross-listed (about 98 percent or 42 out of 43) have set up operations in the host countries. For example, Ecobank Transnational has operations in the Cote D'Ivoire the home country andin Ghana and Nigeria, the host countries; Investec and Pelerinehave operations in South Africa and Botswana; and the 28 firms that are cross-listed in South Africa and Namibia have an operational base in both countries. Cross-listing in sub-Saharan Africa has been generally accompanied by an initial public offering and/or secondary market listing. These cross listed firms have enjoyed reduced cost of capital through an improvement of the firm's information environment. Some of these firms like Investec have been able to cross-list on markets with stringent disclosure requirements such as the New York Stock Exchange and have signaled their quality to outside investors. For the years that these firms have cross listed there has been improved available information to potential customers and suppliers due to an increased media attention and higher quality of accounting information. As a result of the foregoing, there has been an improved financial performance in these companies, (Patel, 2006).

Kenyan firms that have cross listed have been able to bring foreign investors nearer to potential investors. These investors include those from the East African community and other African countries and elsewhere in the rest of the world. For example, East African Breweries, with Kenya as the home country, has a subsidiary Uganda Breweries Ltd in Uganda, its host country of cross-listing. Jubilee Insurance of Kenya has subsidiaries in Uganda and Tanzania; Kenya Airways owns 49 percent of Precision Air of Tanzania. Through cross listing the Kenya Airways and Jubilee Insurance have been able to gain more liquidity and greater ability to raise capital. However, many investors have complained of poor investor protection coupled with high cost of investment and some investors have been reluctant to further investment the country, (Bonnier, 2009). This paper therefore sought to study the effects of investor base on the value of stock of a firm.

Literature review:-
Although managers may be motivated by such considerations as the improved prestige, image and visibility of their company to customers and investors (Mittoo, 2001), the primary financial objective of a foreign listing is a reduction in the company's costs of capital and, accordingly, improved corporate valuation. Existing empirical evidence on this issue is provided by three groups of studies that use different methodologies: 1) studies that explicitly examine the changes in the cost of capital after cross-listing, 2) studies that examine the valuation multiples of cross listed firms relative to those of firms that do not cross-list using cross-sectional analysis, and 3) studies that examine changes in stock price around the announcement of cross-listings and/or around the cross-listing event using the time-series framework, (Mittoo, 2001).

Studies from the first group report that cross-listing in the US by non-US firms is associated with a significant reduction in the cost of equity capital (Abee, 2006). In addition, Aggarwal, (2002) shows the reduction in the cost of equity is sustained over a long period of time following the cross-listing event. At the same time, there is no evidence on the changes in the cost of capital after cross-listing in host markets other than the US.

The second group of studies, the cross-sectional studies, estimate the valuation premium of cross-listed firms using valuation multiples, most often Tobin's Q17, and report that non-US firms that cross-list in the US experience significantly higher valuations compared to firms that do not cross-list (Aggarwal, 2005). However, Bayar (2005) shows that corporate valuation increases significantly before and during the year of cross-listing and declines afterwards. Such evidence questions the causality of the relationship between cross listing and firm valuation. Several studies also compare the valuation premium from cross listing in the US and in the UK. However, the findings are conflicting. Thus, Huang (2001) find significant valuation premiums for US cross-listings that are persistent over time, while they find no premiums in valuation for UK cross-listings. The authors interpret these findings as consistent with the theory that a stock exchange listing in the US 'has unique governance benefits for foreign firms' (Huang, 2001).

Finally, the third group of empirical studies, the event studies, focuses on the impact of cross-listing on shareholders' wealth and report that, on average, cross-listing in the US results in significant positive abnormal

returns both around the announcement of the decision to cross-list and around the cross listing event itself, (Salva, 2003).
However, such evidence primarily concerns cross-listings in the US, while the market reaction to cross-listing on a foreign market other than the US has received significantly less attention in the literature. Concerning cross-listing in the UK, prior studies find positive abnormal returns (Aggarwal, 2005). In addition, Huang (2001) reports permanent valuation gains from cross-listing on various host markets and suggest that cross-listing in the US does not offer unique valuation benefits.

Overall, empirical evidence on the effects of international cross-listings arrive at the general consensus that cross-listing in the US has a positive impact on shareholders' wealth. Evidence on the wealth effects of foreign listings in other markets is limited and inconclusive. In addition, significant changes in international capital markets discussed above have potentially altered the net benefits of cross-listings in different markets. Moreover, there is an ongoing debate in the literature on the sources of value creation around cross-listings. Conventional wisdom has been that cross-listing is a way to overcome investment barriers and make shares accessible to foreign investors (Mittoo, 2001). Accordingly, the reduction in the cost of capital is the result of the increased shareholder base and wider risk sharing (Miller, 2000). In the late 1990s, however, despite the increased integration of national capital markets, the number of cross-listings continued to grow and the valuation benefits from cross-listing continued to be significant.

Methodology:-

The paper used an explanatory survey design. Explanatory research design helps to explain the cause and effect relationship of the study, data collection method and selection of subjects, (Patton, 2000).The target population comprised all the seven cross listed Kenyan firms listed in the NSE namely: Equity bank, KCB, Kenya airways, Jubileeinsurance, Centum Investment Ltd, Nation Media Company and the EABL.The study employed censussampling technique in order to come up with the companies to be studied since it was only cross listed companies required.The researcher used documentary analysis. The data was obtained through analysis from company's annual reports, internet and NSE journals.

A secondary source of data was employed in the data collection process; a documentary analysis guided the researcher obtain information from NSE reports from 2001 to 2010.Secondary data is mainly gathered from existing literature (reports, seminar papers, books, research journals, magazines, publication among others), the internet and past research information.

The data collected was analyzed using descriptive methods and inferential statistics. Descriptive methods were used to analyze the data where frequencies and proportions were used in interpreting the results. Inferential methods such as Pearson test of association was used to show the relationship between cross listing and value of stock. The regression model was used to compute the overall effect of the changes in the value of stock for the cross listed firm. ANOVA and correlation were used to indicate the effect of the factors hypothesized to influence the value of stock.

Results and Discussion:-

The paper sought to establish how investor base affected the value of stock for the 7 cross listed companies before and after cross listing. This was in an effort to determine the companies that had cross listed.

Effect of Investor base on the value of Stock

One-Sample Test							
Test Value = 7.5211							
		T	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
						Lower	Upper
EABL	Before	14.572	2	.202	1.91509	1.6545	2.1757
	After	17.679	2	.110	2.07547	1.8427	2.3082
EQTY	Before	12.072	2	.125	1.11321	.9304	1.2960
	After	35.203	2	.001	1.97170	1.8606	2.0828
KCB	Before	35.968	3	.124	1.81132	1.7115	1.9112
	After	14.735	3	.254	2.00943	1.7390	2.2798

KQ	Before	20.402	3	.124	2.08491	1.8823	2.2875
	After	34.709	3	.003	3.16038	2.9798	3.3409
NMG	Before	40.527	3	.254	3.14151	2.9878	3.2952
	After	29.533	3	.874	2.61321	2.4378	2.7887
JUBILEE	Before	23.686	2	.125	2.08491	1.9104	2.2594
	After	44.652	2	.354	3.20755	3.0651	3.3500
Centum	Before	52.222	1	.254	3.99057	3.8390	4.1421
	After	25.967	1	.321	2.85849	2.6402	3.0768

Among the data sets that were collected only two companies' indicated a significant effect after they had been cross listed on the stock exchange. This companies were the Equity bank p = 0.001 and the KQ airline (p = 0.003).

This significances after the cross listed companies were considered outliers in relation to the industry values and as such the study did not take much significances to the changes in the investor bases in this two companies.

This was interpreted to mean that there were insignificant changes in the investor bases both before and after the cross listing process. This could have been attributed to the company principles on the acquisition of more capital for operation.

Regression Model:-

Coefficients					
	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
Model		Std. Error	Beta		
1 0.254	3.201	0.213	0.003	3.389	0.001
Investor base	0.123	0.108	- 0.001	0.259	0.054
a. Dependent Variable: Value of Stock					

Further testing on the regression model indicated there exists no significant relationship between the investor base of a cross listed firm and the value of stock. Research results accept the hypothesis. (β = - 0.001, p < 0.054).The regression results showed the effect of the investor base of a cross listed firm with a beta coefficient of -0.001, the effect is not significant at (p=0.054).

Conclusion and Recommendation:-

The study found out that investor base has no direct relationship with the value of stock. A cross listed company will only will only attract more investors if the company it reduces its stock minimum trading unit. A reduction in the minimum trading unit greatly increases a firm's base of individual investors and its stock liquidity, and is associated with a significant increase in the stock price. Companies that cross list therefore need to reduce their stock minimum trading units if they are to positively influence the value of their stocks. A decrease in price noisiness affect stock value positively through an increase in the investor base (trading volume). It is therefore recommended that Cross listed company's should ensure their financial statement reflect a strong financial position and good performances to influence investor decisions.

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