

## The Repercussions Facing the Ghana Stock Exchange

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### Abstract

*The study examines the repercussions facing the Ghana Stock Exchange. It also sought to discover the level of public awareness of the Stock Exchange and further ascertain the accessibility of the prospects on the Stock exchange. This paper includes the descriptive survey design. Stratified and simple random, sampling methods were also use for this research. Questionnaire were administered to gather data from listed corporations, unlisted corporations, Staff of Ghana Stock Exchange and individual investors. Descriptive analysis was carried out. The outcome revealed that the investor's anticipated positive performance compared to the actual performance of the Exchange. Furtherance to this, main challenges facing the Ghana Stock Exchange (GSE) are liquidity issues, poor patronage by Ghanaian corporations, low salaries, stern principles and poor media care. However, the prospects embrace safe and sound political atmosphere for investment and satisfactory tax policies. Thus the government needs to take real practical measures to enhance the market in order to improve investors' confidence. The media report more on Stock trading activities. and also include Stock market and trading activities into the Ghanaian educational curriculum so that before student gets into senior secondary school, the awareness would have been created.*

*Keywords: Ghana Stock Exchange, stock listing, listed corporations, unlisted corporations, firm performance*

### 1.0 INTRODUCTION

The Ghana stock exchange was set up in the early 1990s as a prerequisite for the institution of Market economies beneath the structural modification programs powered by the International monetary institutions as well as to expedite the privatization of state owned corporations. The restructuring gives rise to the creation of new markets and enhancement in the existing ones. Ghana initiated a Financial Sector Adjustment program in 1989 which was aimed at reforming and improving the banking sector and to develop the capital markets. The transformation of government to a free market policy was focused on decreasing its financial burden. Presently there are about sixteen stock broking firms licensed to deal with the exchange. Capital Market and Financial Sector Development in Sub-Saharan Africa (Applegarth, 2004; Clark, 2001; Elvin, 1997).

The equity market in Africa remains a very small concern for many investigators; as paralleled with other market. As evidenced by few studies and literature on the development of stock/capital markets in Sub-Saharan Africa. Stock Exchange and the Subsequent listing on New York, Toronto and Zimbabwe Stock Exchanges have given the Ghana Stock Exchange a whole new international dimension and stature. With its current market capitalization, it has become one of the largest sub - Saharan Stock Exchange. Significant development has also taken place since the exchange begun its operations. The opening of the market to non- resident Ghanaians and foreigners in June 1993 was a big boost to the development of the market. Exchange control permission was given to foreigners and Ghanaians to invest through the Exchange without prior approval.

The Ghana Stock Exchange is a private sector initiative and is not founded by government but has enjoyed the support of the Government of Ghana. Stock Exchanges have over the years performed vital roles of helping companies raise equity capital and providing a secondary market for the trading of listed securities. This dual role has provided an access to capital for companies and liquidity for investors. The idea of establishing a Stock exchange in Ghana laid on the drawing board for almost two decades prior to its implementation. The work of the committee was to consolidate all previous work connected to the Stock Exchange project and to fashion out modalities towards the actual establishment of the Exchange. As a result of the work of the committee, the Stock Exchange was established in July 1989 as a private company limited by guarantee under the Companies Code of 1963. It was given recognition as an

authorized Stock Exchange under the Stock Exchange Act of 1971 (Act 384) in October 1990. The Council of the Exchange was inaugurated on November 12, 1990 and trading commenced on its floor the same day.

The Exchange changed its status to a public company limited by guarantee in April 1994 with the objective of providing facilities and framework to the public for purchase and sales of securities as well as regulating authorized dealing members of the Stock Exchange. At the end of 2004, Ghana Stock Exchange (GSE) was adjudged the world's best-performing market with a year return of 144 percent in US dollar terms, compared with 30 percent return by Morgan Stanley Capital International Global Index (Databank Group, 2004). The findings have shown that there is potential for a vibrant capital raising activity. Despite its improvement in the 20 years of operation, GSE still has relatively small number of companies listed on the stock exchange (compared to other Africa countries like Kenyan, Namibia, Egypt, South Africa etc); and it is not clear why many companies are not listed even though in terms of indicators it is one of the fastest growing Africa stock markets.

The question is; what are the challenges and prospects of the Ghana Stock Exchange? At the end of 2004, Ghana Stock Exchange (GSE) was adjudged the world's best-performing market with a year return of 144 percent in US dollar terms, compared with 30 percent return by Morgan Stanley Capital International Global Index (DataBank Group, 2004). The findings have shown that there is potential for a vibrant capital raising activity. Despite its improvement in the 20 years of operation, GSE still has relatively small number of companies listed on the stock exchange (compared to other Africa countries like Kenyan, Namibia, Egypt, South Africa etc); and it's not clear why many companies are not listed even though in terms of indicators it's one of the fastest growing Africa stock markets. This paper aims to know the repercussions fronting the Ghana stock exchange and the number of listed and unlisted corporations on the Ghana Stock Exchange.

## 2.0 METHODOLOGY

The population for this treatise comprises the management and staff of the Ghana Stock Exchange, some listed corporations, and individual investors on the market.

### 2.1 Sampling procedure

Stratified and simple random and purposive sampling methods were used. Stratified sampling method was used to categorize the population into strata (Staff of the Exchange, Listed Companies, Unlisted Companies, Individual Investors) and then used simple random method to select from the Staff of the Exchange, the Listed Companies, and individual investors respectively. However purposive sampling method was used to select unlisted companies from Ghana club 100 based on their characteristics which qualify them to be listed on the Stock Exchange. In the case of the unlisted Companies, the researcher decided to use the Ghana club 100 because; by logical and financial standard all the companies in the Ghana club 100 qualify to be listed on the Exchange.

### 2.2 Data Collection instrument

Interview guide and a questionnaire were adopted as an instrument of the study. The questionnaires were tailored to the objectives of the study and used to collect data from investors, listed, unlisted companies whilst interview guide was used to collect data from staff of the Ghana Stock Exchange. Questionnaire was used because it affords the respondents some level of independency (Nesbari, 1992'. Rous, 2002; Walter, 1984). International Opened ended questions were asked mostly to give the respondents more flexibility to make their opinions known (Best and Khan, 1995). It is more convenience for respondents to answer. However, closed ended questions were also included to keep respondent's answers focused on the questions. The data was analysed using Statistical Package for Social Sciences (SPSS) version 16 software.

## 3.0 RESULTS AND DISCUSSIONS

The results from the analysis of data obtained from the field are presented in this chapter. The respondents were put into four clusters comprising of the Staff of the Exchange who were (6), Listed Corporations (24), Unlisted Corporations (15) and Individual Investors (15), summing up to a total of 60 respondents

### 3.1 Investor confidence on the Exchange

In a bid to know whether there is a consistent investor confidence on the Exchange, as Letiche, (2007) and Watson (1990), asserted that, a higher consistent investor confidence on a Stock Exchange could promote higher value for the investors. The investors were interviewed on average yearly listed companies. Various responses were given, "some were "I don't know", "this is a difficult question", "it is not necessary but two of them representing 40% were of the same opinion, saying that they could not have the time to calculate it" This implies that most of the investors are not following activities on the flow and this has implication for their investment in stocks listed on the exchange and consequently liquidity of the of the market.

### 3.2 Investor's perception on why companies are listed on the Ghana Stock Exchange

Investors understanding of reason for listing would facilitate their investment on securities of the exchange. Thus, sampled investors were interviewed on why companies are listed on Ghana Stock Exchange. The respondents gave mixed responses which are presented below. A respondent representing said "to increase the vibrancy of the stock exchange" and "to increase market capitalization," This he believes will promote the image of the stock exchange". Another respondent also espoused that, creating a market for company's shares", "enhancing the status and financial standing of the company". The rest noted that companies are listed on the exchange to saying "increasing public awareness and public interest in the company and its products, providing Developing Country Studies.

### 3.3 Investors awareness of the earnings abilities of the Exchange

According to Rogers, (2010), the earnings abilities of any stock exchange depict the wisdom behind investors decision, in responding to the question of earnings abilities of the exchange in terms of stock appreciation, all the respondents offered the same answers, they said turnover between January and July 2010 in terms of volume was 83.25 million, in terms of value, it was 51.72 GH Cedis and average volume traded was 0.67million Ghana cedis with a corresponding value of 0.41.

### 3.4 Meeting investor's expectation

The study further finds out from the investors whether their expectations are being met.

## 4.0 CONCLUSION

In relation to the research questions, the investigations revealed the following: The challenges confronting the Ghana Stock Exchange (GSE) and stock market development are: Lack of education on the Exchange, Outdated method of doing business, lack of efficiency, challenges of liquidity, limited number of securities, interest rate anomaly, small number of floating shares, non-performing companies, high cost of listing on the Stock Exchange, non-existence of credit rating agencies, and inadequate capitalization of Licensed Dealing Members and rigid regulations. The factors making it difficult for more companies to be listed on the stock exchange are lack of awareness of the existence and operations of the stock exchange, unwillingness to share ownership, unwillingness to display earnings, mother companies of subsidiary companies already listed on another international stock exchange and lack of understanding of stock trading.

From the study, it was revealed that most Ghanaians are not aware of the existence and activities of the Ghana Stock Exchange due to low publicity and lack of government participation. There is however prospects available on the stock exchange in terms of Stock Exchange automation where business can be done outside the trading floor, the creation of special desk for small and medium enterprises will help more of the small and medium enterprise to be listed on the Exchange. There is a likely increase in market capitalization due to Oil Companies (Tullow Oil) listing on the Stock Exchange.

Based on the findings, it is recommended that government intervene not only by providing tax holidays but also public education on the activities of the Stock Exchange, inclusion of activities of Stock Exchange in curriculum of secondary and tertiary schools. The media should also devote more space to stock trading activities to boost the market hence increasing investor confidence. It is also recommended that managers relax trading rules to promote trade on the Stock Exchange.

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