

**Addis Ababa University  
School of graduate studies**

**Can Ethiopian companies meet the listing requirements  
of African stock exchanges?**

**By  
Abera Bayisasahu Nade**

**June, 2011  
Addis Ababa, Ethiopia**

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**A Thesis Submitted to the Department of Accounting  
and Finance of Addis Ababa University for the Partial  
Fulfillment of the requirements for the Degree of  
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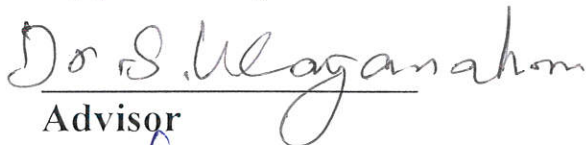
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Approved by the board of examiners

  
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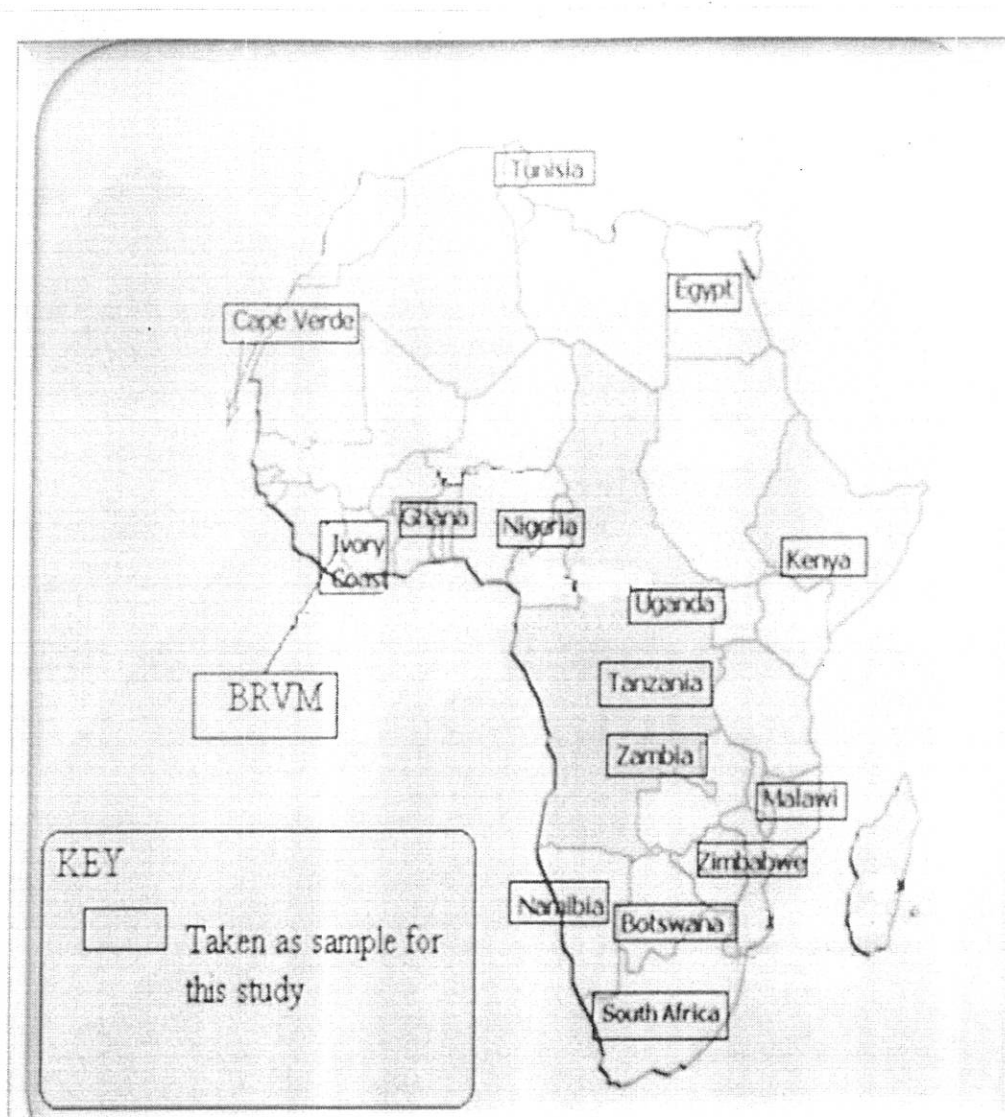
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## Map of Sample African Stock Exchanges



(Source:

<http://www.africansea.org/asea/Default.aspx?AspxAutoDetectCookieSupport=1>)

**Can Ethiopian Companies Meet the Listing Requirements of  
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## **Abstract**

*Ethiopian companies are not benefiting from listing on stock exchanges because there no stock exchange in Ethiopia. Foreign listing is an alternative solution to this problem. Thus, this study examines whether or not Ethiopian companies meet the listing requirements of African stock exchanges. The study also assessed the characteristics of Ethiopian companies (their strengths and weaknesses) in relation to stock exchanges listing requirements so as to determine the availability of qualified companies for the establishment of a stock exchange in Ethiopia. The determinants of listing requirements and listings are also investigated in this study.*

*The study adopts a mixed methods research approach. Specifically, the study uses surveys of 17 Ethiopian share companies that are established after 1994 by offering shares to the public via IPO and that has a minimum of two years operating history using closed ended self administered questionnaires to collect a quantitative data. In addition, the study uses surveys of 15 African stock exchanges that have listing requirements on their websites in English languages. The study also analyzed the qualitative listing requirements of African countries stock exchanges (OECD 2004 Corporate Governance Principles) by comparing it with the Ethiopian companies' corporate governance law.*

*The results of this combined research methodology reveal that Ethiopian companies can be listed in other African countries' stock exchanges and get benefited from listing. There are also qualified companies for the establishment of stock exchange in Ethiopia.*

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## List of abbreviations

- AMEX:** American Stock Exchange
- APRM:** African Peer Review Mechanism
- Art.:** Article
- ASE:** Australia stock Exchange
- ASEA:** African Securities Exchanges Association
- BRVM:** Bourse Regionale Des Valeurs Mobilieres
- BSE:** Bombay Stock Exchange
- CAR:** Corporate Annual Reports
- CC:** Commercial Code
- CCE:** Commercial Code of Ethiopia
- CEO:** Chief Executive Officer
- FDRE:** Federal Democratic Republic of Ethiopia
- GAAP:** Generally Accepted Accounting Principles
- GDP:** Gross Domestic Product
- GNI:** Gross National Income
- IFRS:** International Financial Reporting Standard
- IMF:** International Monetary Fund
- IPO:** Initial Public Offering
- ISS:** Institute of Shareholder Service
- JSE:** Johannesburg Stock Exchange
- KLSE;** Kuala Lumpur Stock Exchange
- Ln:** Natural logarithm
- LSE:** London Stock Exchange
- LSE:** London Stock Exchange
- MoFED:** Ministry of Finance and Economic Development
- MoTI:** Ministry of Trade and Industry
- n.d.:** no date
- NASDAQ:** National Association of Securities Dealers Automated Quotation

**NBE:** National Bank of Ethiopia  
**NYSE:** New York Stock Exchange  
**NZSE:** New Zealand Stock Exchange  
**OECD:** Organization for Economic Cooperation and Development  
**OLS:** Ordinary Least Square  
**OTC:** Over-The-Counter  
**PLC:** Public Limited Company  
**PRC:** People's Republic of China  
**PrLCs:** Private Limited Companies  
**Pv.ltd:** Private Limited Company  
**S&P:** Standard & Poor  
**SEC:** Securities Exchange Commission  
**SEHK:** Stock Exchange of Hong Kong  
**SEL:** Securities and Exchange Law  
**SOA:** Sarbanes-Oxley Act of 2002  
**SOEs:** State-Owned Enterprises  
**SPSS:** Statistical Package for Social Sciences  
**TSE:** Tokyo Stock Exchange  
**UK:** United Kingdom  
**UN:** United Nations  
**US:** United States  
**USD:** United States Dollar (\$)  
**WFE:** World Federation of Exchanges  
**WTO:** World Trade Organization  
**ZUR:** Zurich stock exchange

## Chapter 1 Introduction

---

### 1.1 Background of the study

Stock exchanges are organized market places in which stocks, bonds and other securities are traded by members of the exchange. Stock exchanges perform a number of functions useful to the investors and corporations. It is only listed companies that are able to trade their securities on the trading floor of the stock exchange (Mohammed, 2010). Listing means the acceptance of qualifying security for trading over a stock exchange. In order for companies to be listed, they should fulfill certain listing requirements of credibility for the exchange. Listing requirements are the set of conditions (both quantitative and qualitative) imposed by a given exchange up on companies that want to be listed. Such conditions sometimes include minimum number of shares, minimum capital, minimum annual income, and minimum governance qualities.

Nevertheless, there is no stock exchange in Ethiopia. In this regard, Negash (2009) noted that one key institution that is missing in Ethiopia is a stock exchange. The establishment of stock exchange in Ethiopia can give the following advantages. Petros (2009) clarified that a stock exchange will benefit Ethiopia by serving as governing instrument, making exit for minority shareholders from underperforming or oppressing companies (also noted by Negash (2008) and Gebremeskel (2010), raising country's competitiveness in post World Trade Organization (WTO) accession, and by facilitating liquidity of securities.

In addition, Firew (2009) pointed out that the existence of stock exchange will help Ethiopia by attracting foreign investor, generating more capital and investment to fuel Ethiopia's rapid growth, as well as by cutting cost of promotion. Moreover, the transfer of risk and transfer of waiting , marketability and valuation of securities and firm, Protection of financial investors under what is called a self-regulatory scheme and improving the financial sector's growth as additional source of capital with banks are also the other purpose of stock exchange for Ethiopia (Mohammed, 2010). Price discovery as stated by Negash (2008) is also the other advantage of stock exchanges.

Regarding the specific need for the establishment of stock exchange or foreign listing, Gebremeskel (2010) and Petros (2009) stated that there is adequate shareholding constituency in Ethiopia to support a viable stock exchange. The number of shareholders is estimated more than 60,000. This number clearly indicates that there is share illiquidity highly. If it illiquidity continuous like the present, it will frustrate existing shareholders and discourage the market for newer offerings (Mohammed, 2010; Petros, 2009). In addition, investors are likely to be unwilling to hold long-term securities if they fear that the securities they intend to buy cannot be converted in to cash without much trouble and wait (Mohammed, 2010). Moreover, Firew (2009) added that the current rapid increase in share companies soliciting equity from the public calls for the speedy establishment of some sort of an exchange, at least in Addis Ababa. These conditions clearly signify the need for either the establishment of a stock exchange or the consideration of foreign listing, a substitute for local or domestic listing.

These conditions are indicators for the necessity of listing of Ethiopian companies in foreign stock exchanges. Foreign listing especially in African stock exchanges can solve the problem until a stock exchange is established in Ethiopia. Ethiopia and other African countries operate under a similar economic environment (growing economy), the more likely that African stock exchanges becomes a destination for Ethiopian companies.

Thus, the purpose of this two-phase, sequential mixed method survey research is to investigate whether or not Ethiopian companies meet both the quantitative and qualitative listing requirements of African stock exchanges. The motivation for using a mixed research approach is to better understand the research problem both quantitatively and qualitatively. The first phase is the exploration of whether or not Ethiopian companies meet the quantitative listing requirements of African stock exchanges. The second phase, using a secondary data is to investigate whether or not Ethiopian companies meet qualitative listing requirements of African stock exchanges using a qualitative analysis.

The other purpose of this study is to identify the listing strengths and weaknesses of Ethiopian companies. The intent of this is to check the availability of qualified companies in Ethiopia for the establishment of stock exchange and to design a hypothetical listing requirement for Ethiopian companies. Lastly, this study investigates the determinants listing requirements of African stock exchanges and to examine the determinants of listing of or meet of Ethiopian companies on African stock exchanges.

The results of this combined research methodology reveal that Ethiopian companies can be listed in other African countries' stock exchanges and get benefited from listing. There are also qualified companies for the establishment of stock exchange in Ethiopia. The paper is organized as follows: chapter one introduction; chapter two literature review; chapter three research design; chapter four data analysis and interpretation; and chapter five Discussion, conclusion and recommendations.

## **1.2 Statement of the problem**

Gebremeskel (2010) and Petros (2009) noted that there is adequate shareholding constituency in Ethiopia which clearly indicates that there is share illiquidity highly. If it illiquidity continuous like the present, it will frustrate existing shareholders and discourage the market for newer offerings (Mohammed, 2010; Petros, 2009). In addition, investors are likely to be unwilling to hold long-term securities if they fear that the securities they intend to buy cannot be converted in to cash without much trouble and wait (Mohammed, 2010). Moreover, Firew (2009) added that the current rapid increase in share companies soliciting equity from the public calls for the speedy establishment of some sort of an exchange, at least in Addis Ababa. These conditions clearly signify the need for either the establishment of a stock exchange or the consideration of foreign listing, a substitute for local or domestic listing. These conditions are indicators for the necessity of listing of Ethiopian companies in foreign stock exchanges. Foreign listing especially in African stock exchanges can solve the problem until a stock exchange is established in Ethiopia.

Thus, the purpose of this two-phase, sequential mixed method survey research is to investigate whether or not Ethiopian companies be listed in African stock exchanges by meeting both the quantitative and qualitative listing requirements. The other purpose of this study is to identify the listing strengths and weaknesses of Ethiopian companies. The intent of this is to check the availability of qualified companies in Ethiopia for the establishment of stock exchange and to design a hypothetical listing requirement for Ethiopian companies. Lastly, this study investigates the determinants listing requirements of African stock exchanges and to examine the determinants of listing of or meet of Ethiopian companies on African stock exchanges.

### **1.3 Research Objectives**

**The following are the general objectives of the thesis;**

- i. To identify whether or not Ethiopian companies meet the listing requirements of African stock exchanges;
- ii. To assess the strengths and weaknesses of Ethiopian companies in relation to stock exchanges listing requirements for the establishment of a stock exchange;

**To achieve the general objective, the following are the specific objectives of the thesis;**

- a. To check whether or not Ethiopian companies can be listed abroad in other countries stock exchange particularly in Africa by meeting both the qualitative and quantitative (corporate governance) listing requirements;

- b. To identify the availability of qualified companies in Ethiopia for the establishment of stock exchange;
- c. To design a hypothetical listing requirements for Ethiopian companies so that companies can prepare itself to meet it and to be listed home when a stock exchange is established in Ethiopia;
- d. To investigate the determinants of listing requirements of African stock exchanges; and
- e. To identify factors that affect Ethiopian companies' meeting of the listing requirements of African stock exchanges?

#### **1.4 Research methodology**

In order to achieve the main research objectives a mixed methods approach (both quantitative and qualitative) is adopted. The purpose of using such a mixed methods approach is to gather data that could not be obtained by adopting a single method and for triangulation so that the findings with a single approach could be substantiated with others wherever possible. A brief explanation about each of the main data collection methods adopted is given below.

#### **1.5 Definition of terms**

**Listing requirements:** Listing requirements are the set of conditions imposed by a given exchange upon companies that want to be listed on that exchange.

**Stock exchanges:** A stock exchange is an entity that provides services for stock brokers and traders to trade stocks, bonds, and other securities.

**Stock exchange listing:** The fact of being on the official list of shares which can be bought or sold on the stock exchange.

**Foreign listing:** Listing in foreign stock exchanges

**Corporate governance:** Corporate governance is the set of processes, customs, policies, laws, and institutions affecting the way a corporation (or company) is directed, administered or controlled.

**Stock exchanges:** A stock exchange is an entity that provides services for stock brokers and traders to trade stocks, bonds, and other securities.

**Companies:** Art. 304 (1) of the commercial code of defined a share company as ‘ a share company is a company whose capital is fixed in advance and divided into shares and whose liabilities are met only by the assets of the company. In this paper share companies are named as companies.

## **1.6 Delimitations and limitations**

### **1.6.1 Delimitations of the study**

The focus of this study is delimited to; the examination whether or not Ethiopian companies meet the listing requirements of African stock exchanges, the identification of strengths and weaknesses of Ethiopian companies for the establishment of a stock exchange in Ethiopia, and the identification of determinant factors of the listing requirements of African stock exchanges and the listing of Ethiopian companies.

### **1.6.2 Limitations of the study**

This study has the following limitations. It investigates whether or not Ethiopian companies meet the listing requirements of only African stock exchanges. It did not check whether Ethiopian companies meet the listing requirements of European, Asian and western countries stock exchanges. This was due to time and financial resource limitations. In addition, the study takes only the listing requirements of equity shares. In other words, the study did not investigate on bonds and other securities listing requirements due to the same reason. Language was another limitation of the study in which some of the African countries stock exchange website is not in English so that it was difficult to get their listing requirements all African stock exchanges.

## **1.7 Significance of the study**

### **1.7.1 Significance to the scholarly research and literature**

In the literature little is identified about the determinant factors of listing requirements. Thus this study will try to initiate the identification of factors that affect listing requirements stock exchanges. Also, it will be used as a reference for a researcher that wants to conduct a research on the establishment of a stock exchange in Ethiopia & the listing of Ethiopian companies in foreign stock exchanges.

### **1.7.2 Significance to improve practice**

This study will help Ethiopian companies to be listed in other African countries stock exchanges by identifying stock exchanges in which companies meet the listing

requirements so that get benefited from listing & solve the problem of illiquidity. Moreover, this study will try to aid the establishment of stock exchanges in Ethiopia.

### **1.7.3 Significance to design and review policy**

This study will help the responsible body that works on the establishment of stock exchange in Ethiopia by designing the listing requirements for Ethiopian companies.

## Chapter 2 Literature Review

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### Introduction

The preceding chapter has indicated that the literature on topics related to this research both theoretically & empirically. The purpose of this study is to investigate whether or not the Ethiopia companies can be listed abroad in African stock exchanges by meeting the listing requirements. Examining whether or not establishing a stock exchange in Ethiopia is feasible or not from the side of companies' strengths & weaknesses is also another purpose of this study. The identification of determinants of listing requirements & listings is also another purpose of this study. To achieve this, reviewing a related literature is an important thing.

In this review both theoretical literature & empirical evidences are reviewed. The coverage of the contents is about stock exchanges, listing requirements, listing especially foreign listing, disclosure requirements, corporate governance & issues about Ethiopia are presented below. The literature review of this research is organized as follows. The first part consists of the empirical evidence & the second part consist the empirical evidence.

## **2.1 Theoretical reviews**

### **2.1.1 Stock exchanges: definition and function**

As Gomez (2002) defined, stock exchanges are organized market places in which stocks, shares and other securities are traded by members of the exchange, acting both agents (brokers) and principals (dealers or traders). Stock exchanges perform a number of functions useful to the investors and the corporations. They carry out the following functions: central trading place, settlement of transactions, continuous market, supply of long-term funds, setting up of rules and regulations, evaluation of securities, control over company management, helps capital formation, facilitates speculation, and directs the flow of savings.

### **2.1.2 Listing requirements: Definition, purposes and purposes**

Listing requirements are defined as the set of conditions imposed by a given stock exchange upon companies that want to be listed on that exchange. Such conditions sometimes include minimum number of shares outstanding, minimum market capitalization, and minimum annual income (Investor Words Dictionary, 2011). For example, the New York Stock Exchange (NYSE) has the following listing requirements:

- i. Minimum 2,200 total shareholders
- ii. One million public shares.
- iii. \$100 million market value of public shares
- iv. Aggregate pretax earnings the last three years of \$6.5 million, and
- v. \$100 million in revenues during the last fiscal year

Listing requirements are two types: quantitative and qualitative. Regarding the quantitative listing requirements, the above example explained it good. Regarding the qualitative listing requirements it is all about the companies that must meet before listed in stock exchanges by fulfilling a requirement like corporate governance and disclosure requirements.

Even though listing requirements are different among stock exchanges, their principal role is;

- i. To enhance transparency and investor protection,
- ii. To maintain the market efficient by making listed companies disclose the necessary information to the stakeholders on time and at the appropriate place in accordance with the disclosure requirements of the stock exchanges (Draus, 2009),
- iii. To enhance market confidence,
- iv. Ensure that investors receive adequate disclosure about the listed companies when investors want to deal with investing on the companies' stocks (NASDAQ, 2011).
- v. To further the aim of creating a free and open market (Smith, 1986);
- vi. To facilitate investing and trading of securities by ensuring a minimum level of firm quality, monitoring and governance (Carpentier, Suret and Cumming, 2010)

Thus listing requirements force companies to the publication of facts concerning the securities listed on exchanges and concerning securities for which application and it is being made one of the most important functions of stock exchange listing requirement.

Minimum listing standards are therefore a signal of quality to market participants, which in turn facilitates liquidity by attracting investors to the market.

On the other hand listing requirements are not without disadvantages. Complying with a more stringent listing requirement may exceed benefits (IMF Working Paper, 2001). Concerns expressed by regulatory authorities and exchange officials that stringent disclosure levels could reduce access to foreign capital and foreign investment opportunities (Saudagaran and Biddle, 1992). Stock exchanges that have a strict listing requirement are not better destinations of companies for listing. This is because the benefits gained from listing will be a trade off for the costs incurred to comply with the stringent listing requirements.

### 2.1.3 Listing: Definition, purposes and types

Listing is defined as the acceptance of a qualifying security for trading over a stock exchange (Online Business Dictionary, 2011). Listing is categorized as domestic listing, foreign listing, cross-listing and multiple listing. Domestic listing is when the domestic companies listed in the domestic stock exchange. On the other hand, foreign listing is occurred when the domestic companies are listed in other country's stock exchanges. Cross listing is the combination of both foreign listing and domestic listing. This is happened when domestic companies are listed both in the local stock exchange and in the foreign stock exchange. Multiple listing is similar to dual listing but companies are listed in more than two stock exchanges.

According to the ASE (2011) the following are **the benefits of listing**.

- i. Access to capital for growth
- ii. Higher public and investor profile
- iii. Institutional investment
- iv. Improved valuation
- v. A (secondary) market for your organization's shares
- vi. Exit strategy for early stage investors
- vii. Alignment of employee/management interests
- viii. Reassurance of customers and suppliers

Even though benefits of listing exceed its cost, it has the following disadvantages for the listed company: the business may become vulnerable to market fluctuations; if market conditions change during the floatation process you may have to abandon the float; the costs of floatation can be substantial and there are also ongoing costs such as higher professional fees; you will have to consider shareholders interests when running the company - which may differ from your own objectives; and public companies have to comply with a wide range of additional regulatory requirements and meet accepted standards of corporate governance.

#### **2.1.4 Corporate Governance**

##### **2.1.4.1 definition, role and its effects**

As per OECD (2004) corporate governance involves a set of relationships between a company's management, its board, its shareholders and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are

set, and the means of attaining those objectives and monitoring performance are determined. Also, good corporate governance should provide proper incentives for the board and management to pursue objectives that are in the interests of the company and its shareholders and should facilitate effective monitoring. In addition, corporate governance is affected by the relationships among participants in the governance system. Controlling shareholders, which may be individuals, family holdings, bloc alliances, or other corporations acting through a holding company or cross shareholdings, can significantly influence corporate behavior.

#### **2.1.4.2 Principles of corporate governance**

The following are the OECD's Corporate Governance Principles under six basic headings;

*i. Ensuring the basis for an effective corporate governance framework*

The corporate governance framework should promote transparent and efficient markets, be consistent with the rule of law and clearly articulate the division of responsibilities among different supervisory, regulatory and enforcement authorities.

*ii. The rights of shareholders and key ownership functions*

The corporate governance framework should protect and facilitate the exercise of shareholders' rights.

*iii. The equitable treatment of shareholders*

The corporate governance framework should ensure the equitable treatment of all shareholders, including minority and foreign shareholders. All

shareholders should have the opportunity to obtain effective redress for violation of their rights.

*iv. The role of stakeholders in corporate governance*

The corporate governance framework should recognize the rights of stakeholders established by law or through mutual agreements and encourage active co-operation between corporations and stakeholders in creating wealth, jobs, and the sustainability of financially sound enterprises.

*v. Disclosure and transparency*

The corporate governance framework should ensure that timely and accurate disclosure is made on all material matters regarding the corporation, including the financial situation, performance, ownership, and governance of the company.

*vi. The responsibilities of the board*

The corporate governance framework should ensure the strategic guidance of the company, the effective monitoring of management by the board, and the board's accountability to the company and the shareholders.

## 2.2 Empirical evidence

### 2.2.1 Listing Requirements and Stock Exchanges

#### 2.2.1.1 The economic costs and benefits of listing requirements

As Leitterstorf, Nicoletti and Winkler, (2008) noted, stock exchanges exhibit externalities and information asymmetries between issuers and investors and between buyers and sellers of securities. Regulatory intervention to mitigate these market failures including super-equivalent requirements may assure investors, thus reducing firms' cost of raising finance and increasing their valuation. However, regulation also imposes compliance and indirect costs on firms. These costs will also be reflected in firms' valuations. In other words, there is a trade-off between the costs and benefits of listing rules. Leitterstorf, Nicoletti and argued that Complying with listing requirements is costly for firms.

Regarding the difference of listing requirements across countries and firms La Porta et al. (2002) found a positive correlation between investor protection and company performance across countries. Macey and O'Hara (2002) in their study about the fees of stock exchanges and its economy, found that while providing revenue to the exchange, listing fees impose large (opportunity) costs and they types of listing requirements make economic sense for exchanges (or perhaps regulators) to impose on companies.

Saudagaran and Biddle (1992) examined a key question: whether firms' choices regarding alternative foreign stock exchange listings are influenced by financial disclosure levels. using the listings of 302 internationally traded firms with at least one foreign listing, on one of nine major exchanges, as of year-end 1987 and the changes in listings between

1981 and 1987, they found that exchange choices are influenced by financial disclosure levels and this effect should operate only for firms whose domestic disclosure levels are lower than those of a given foreign exchange. Overall, the results lend credence to concerns expressed by regulatory authorities and exchange officials that stringent disclosure levels could reduce access to foreign capital and foreign investment opportunities.

Using the relative costs and benefits of outside director monitoring as a benchmark, Wintoki (2007) found significant cross-sectional variation in the wealth effects around the announcement and passage of these regulations. He discovered that firms which have high monitoring-costs and fewer benefits from outside monitoring benefited less from the regulations. In particular, Wintoki (2007) found that the wealth effects around the passage of these new regulations are positively related to firm size and age, and negatively related to growth opportunities and the uncertainty of the firm's operating environment. The results suggest that a blanket "one size fits all" governance regulation maybe detrimental to certain firms, particularly young, small, growth firms operating in uncertain business environments, that are costly for outsiders to monitor.

### **2.2.1.2 The Valuation and liquidity Effects and its certification role of Listing Requirements**

Carpentier, Suret and Cumming (2010) explored the valuation effects of listing requirements emphasizing on the valuation of venture capital-backed IPOs in Canada and United States. They take a sample of IPOs from both countries which are matched by size

and sector over the period from 1986 – 2007. In their findings, they assumed that the level of regulation in a stock market influences its cost of capital and the values of the firms listed on different markets.

Oxelheim and Randoy (2003) examined the effect of foreign (Anglo-American) board membership on corporate performance measured in terms of firm value. Using a sample of firms with headquarters in Norway or Sweden, they argued that superior performance reflects the fact that these companies have successfully broken away from a partly segmented domestic capital market by “importing” an Anglo-American corporate governance system. Such an “import” signals a willingness on the part of the firm to expose itself to improved corporate governance and enhances its reputation in the financial market.

Draus (2009) tried to investigate a stock exchange can improve its liquidity by tightening its listing requirements. Because these reduce information asymmetry, they increase the utility of investors and lead to a high investor participation on the exchange. Under-regulation is exacerbated if other trading venues free ride on the regulation and if the trading fee is determined by the level of listing requirements. While investors are better off if trading is separated from listing and is a competitive industry, an exchange has a higher profit when it is a monopolist in listing and trading.

A profit maximizing exchange may set listing requirements leading to high information efficiency in equilibrium. However, this is strongly linked to market conditions and firm characteristics. The information content of a listing depends not only on the level of listing requirements, but also on the characteristics of firms incited to list. High listing requirements are not a guarantee for the highest efficiency and the latter may be achieved with low requirements. Whether information efficiency is socially desirable depends on compliance costs and forgone growth opportunities which reduce welfare (Draus, 2009).

### **2.2.1.3 Competition and cooperation among exchanges and listing requirements**

Chemmanur and Fulghieri (2006) analyzed firms' choice of exchange to list equity and exchanges' choice of listing standards when insiders have private information about firm value, but outsiders can produce (noisy) information at a cost. They added that the listing standards chosen by exchanges affect their "reputation," since outsiders can partially infer the rigor of these standards from the post-listing performance of firms. Additionally, they showed that while exchanges use their listing standards as a tool in competing for listings with other exchanges, this will not necessarily lead to a "race to the bottom" in listing standards.

## **2.2.2 Disclosure Requirements and stock exchanges**

### **2.2.2.1 Disclosure Requirements**

According to Adhikari and Tondkar (1992) the globalization of capital markets has resulted in a great deal of attention being focused on problems created by accounting diversity in different countries. They examined the relationship between environmental

factors and the accounting disclosure requirements of stock exchanges in different countries.

In their study, Ferguson, Lam and Lee (2002), examined the impact of international capital market pressures on the voluntary disclosure of three types of information (strategic, financial, and non-financial) in the annual reports of former wholly state-owned People's Republic of China (PRC) enterprises, listed on the Stock Exchange of Hong Kong (SEHK). Consistent with a cost benefit framework, Ferguson, Lam and Lee found that PRC H-Share firms disclose significantly more strategic and financial information than other SEHK firms.

Wallace and Naser (1995) in their study by selecting Hong Kong for testing the multivariate impact of selected firm characteristics on corporate annual reports (CARs) examined the cross-sectional variation in the researcher-created indexes of the comprehensiveness of the mandatory information contained in the CARs of a sample of firms listed on the Stock Exchange of Hong Kong (SEHK). Their study provides evidence that the researcher-created indexes vary positively with asset size and the scope of business operations but negatively with profits.

Hossain, Perera and Rahman (1995) in their study of the voluntary disclosure in the annual reports of New Zealand companies noted that New Zealand firms are developing strategies to attract investors, for example, through voluntary disclosure of information. The results showed that firm size, foreign listing status and leverage are significantly

related to the extent of voluntary disclosure. In contrast assets-in-place and type of auditor are not significant explanatory variables.

Cooke (1993) reported the results of a survey of disclosure in the annual reports of unlisted and listed corporations in Japan; a country that many argue has a unique environment. The survey finds that there is a significant difference in disclosure by multiple listed companies in their CC accounts compared with domestically listed corporations and unlisted enterprises. It is also found that there is a significant difference in disclosure between multiple listed and domestically listed entities in their SEL accounts. However, there was no significant difference in disclosure between the TSE (Tokyo Stock Exchange) group and the unlisted group in their CC accounts.

The study of Frost, Hayes and Gordon (2006) examined the associations between measures of stock exchange disclosure and market development at 50 of the member stock exchanges of the World Federation of Exchanges found that the strength of the disclosure system (disclosure rules, monitoring, and enforcement) is positively associated with market development, after controlling for legal system, legal protection of investors, market size, and several other potentially relevant explanatory variables.

Huddart, Hughes and Brunnermeier (1999) using a rational expectations model examined how public disclosure requirements affect listing decisions by rent-seeking corporate insiders, and allocation decisions by liquidity traders seeking to minimize

trading costs. They found that exchanges competing for trading volume engage in a “race for the top” where under disclosure requirements increase and trading costs fall.

Huddart, Hughes and Brunnermeier (1999) considered the effects of disclosure requirements on listing decisions and allocation of liquidity across exchanges. They found that trading concentrates on high disclosure exchanges prompting exchanges to engage in a ‘race for the top’ in setting their disclosure requirements to maximize trading volume. They added that risk aversion on the part of liquidity traders creates a diversification motive to allocate demands to a low disclosure exchange.

### **2.2.3 Financial Disclosure Levels and Foreign Stock Exchange Listing Decisions**

According to Saudagaran and Biddle (1992) firms are increasingly listing their shares on foreign stock exchanges; however, not all exchanges have had equal appeal. Anecdotal evidence suggests that when firms are making foreign listing decisions, they are influenced by financial disclosure requirements. Finally, they concluded that concerns expressed by regulatory authorities and exchange officials that stringent disclosure levels could reduce access to foreign capital and foreign investment opportunities. This shows that an exchange that has stringent disclosure levels less attract foreign firms to be listed there. This situation affects firms that are demanded less stringent disclosure requirements by local exchanges.

#### 2.2.4 Listing and its type

Grammatikos and Papaioannou (1986) tested the market reaction to the listing of a stock and their findings support the argument that listing conveys positive information. Listing is observed to be of most value for firms with ambiguous earnings performance. Using a sample of China's partially privatized state-owned enterprises (SOEs) that have emerged in the global equity markets, Hung, Wong and Zhang (2008) examined the decision to list overseas and its consequences. They find that overseas listing of Chinese SOEs is primarily determined by political needs, not by firms' desire to fund growth and expand foreign sales. In addition, they find that overseas listed SOEs have more professional boards of directors, use greater accounting conservatism, exhibit higher investment efficiency, and have better one-year and two-year post-listing stock performance than their domestically listed counterparts.

Additional in their analysis of exploring the impact of political relations on overseas listing effects, Hung, Wong and Zhang (2008), founded that strong political connections weaken the overseas listing effect on investment efficiency and post-listing stock performance, consistent with the positive overseas listing effect on investment efficiency being attenuated by government influence to satisfy state objectives such as excess employment. This suggests that overseas listing provides a mechanism for constraining politicians' pursuit of private benefits and improving efficiency for partially privatized Chinese SOEs. However, the effectiveness of this mechanism is limited for SOEs with strong ties to the government.

On the debate that theoretical papers support the hypothesis that overseas listings have a positive effect on stockholders' wealth, a few empirical studies cast doubts on this hypothesis. Baba and Yamori (2001) suggested that the steady growth of overseas listings is motivated not only by the stockholders' wealth maximization, but also by other reasons, such as managers' utility maximization.

Fulghieri and Chemmanur (2001) analyzed firms' choice between exchanges to list equity (including multiple listings), and exchanges choice of listing standards for firms which apply for listing. They found that, firms will list on a foreign exchange alone if most of the group of investors who have a comparative advantage in evaluating their firm (low-cost investors) trade in the foreign exchange and concluded that the greater the reputation of the exchange, higher the listing standard set by that exchange.

The survey study conducted by Bancel and Mittoo (2001) on European managers on the costs, benefits, and net benefits of foreign listing founded that increase in prestige and visibility, and growth in shareholders are perceived as the major benefits, and the costs of public relations and legal fees are cited as the major costs by the managers.

## **2.2.5 International listing**

### **2.2.5.1 The impact of international listings on risk**

Howe and Madura (1990) examined the impact of international listing on common-stock risk focusing on permanent shifts in risk. The finding of their investigation suggested that no significant shifts in risk from international listing are documented rather the results are robust with respect to the location and year of listing. The findings of Howe and

Madura suggested that markets are already reasonably well integrated or listing is an ineffective mechanism for reducing segmentation.

#### **2.2.5.2 Choice of foreign listing location**

As per Yang and Lau (2006), beyond geographical proximity and other obvious explanations of why Chinese firms prefer listing in Hong Kong more than in the United States, they identified two additional benefits of a Hong Kong listing. The first one is that Chinese firms listed in Hong Kong have a better information environment than those listed solely in the United States and the second one is that the Hong Kong-listed firms are less financially constrained, which may be due to their ability to access the Hong Kong capital market for external financing. The results their study illustrated that different stock markets offer different benefits as a listing venue and the benefits of foreign listing may depend on the choice of listing location.

#### **2.2.5.3 What Companies Need to Know About International Cross-Listing**

On their article about companies need to know about international cross-listing, King and Mittoo (2007), addressed four questions about cross-listing by non-U.S. companies on a U.S. stock exchange. They showed that companies list in the U.S. to increase visibility and share liquidity, to broaden their shareholder base, to gain access to cheaper financing and reduce the cost of capital, and, in some cases, to implement a global business strategy. Foreign companies also typically cross-list after periods of strong market performance and experience a positive valuation effect around the time of listing, but then underperform the market in the period after the cross-listing.

Second, they found that, on average, cross-listed companies exhibit higher valuations than their home-market peers, but with significant variation based on firm characteristics: The valuation premiums are larger for smaller companies with higher past sales growth, higher ROAs, and lower financial leverage. Thirdly, King and Mittoo (2007) discovered that, in the long run, the companies that show a permanent increase in valuation are those that succeed in expanding their U.S. shareholder base and improving their levels of shareholder protection.

Finally, in their effort to answer the question of “how has the Sarbanes-Oxley Act (SOX) affected the value of a U.S. listing?” King and Mittoo (2007) suggested that SOX, while perhaps deterring some would-be overseas listings, has not seriously eroded the net benefits of a U.S. listing. Additionally, Doidge et al. (2004) suggested that a U.S. listing reduces the extent to which controlling shareholders can engage in expropriation and thereby increases the firm's ability to take advantage of growth opportunities. They added that growth opportunity is more highly valued for firms that choose to cross-list in the U.S., particularly those from countries with poorer investor rights.

#### **2.2.5.4 Cross-Listing: Visibility and Corporate Governance**

Licht (2003) in his article that focused on cross-listing and corporate governance noted that American securities markets still fare better in terms of the legal rules governing them, the legal professionals that work to enforce the regime, and a sophisticated court system that provides the necessary infrastructure for a well-functioning corporate

governance system. The 2002 wave of scandal tarnished the reputation of the American market, but has not eroded it completely Licht (2003).

Baker, Nofsinger and Weaver (2002) showed that international firms listing their shares on the New York Stock Exchange (NYSE) or the London Stock Exchange (LSE) experience a significant increase in visibility, as proxied by analyst coverage and print media attention (*The Wall Street Journal or Financial Times*). The increase in analyst following is also associated with a decrease in the cost of equity capital after the listing event. Their paper results are stronger for NYSE listing firms than for LSE listing firms in that it may be partially compensate firms for the higher costs associated with NYSE listing (compared to LSE listing).

## **2.3 Ethiopia**

### **2.3.1 History of stock exchange in Ethiopia**

According to Mohammed (2010), Ethiopia's brief history of exchange shows that there were share and bond dealings under the sponsorship of the National Bank of Ethiopia (NBE) starting in March 1965. Later, the Addis Ababa Share Dealing Group was set up to trade in shares and government bonds. The group started functioning with share dealings of 15 listed companies and four government bonds, and the number of listed companies reached 17 by 1966. It had its own rules and regulations. However, the development of a stock exchange was nipped in the bud because of the post-1974 socialist economic policy. Even, Ethiopia doesn't have a stock exchange under the current regime also. In this regard, Ethiopia is not lucky.

### **2.3.2 Company Law and Corporate Governance In Ethiopia**

Hamilton (2007) conducted a review on the existing Ethiopian commercial law. The existing commercial law of Ethiopia is rooted from the 1960's commercial code. He noted that Although Ethiopia's company law set forth primarily in its Commercial Code enacted in 1960 and in the 1997 Commercial Registration and Business Licensing Proclamation has proven basically adequate for conditions to date, the Code needs to be updated to reflect current commercial realities and the demands of a global economy.

According to him, company law is crucial in market economies; it sets the legal environment for the creation and continuing operation of privately owned businesses. At the same time, as Hamilton (2007) pointed out, the current law contains provisions that are contrary to international best practices and facilitate insider minority control and hinder transparency in governance. Such provisions can seriously discourage new investment.

### **2.3.3 Profile of Ethiopian companies**

Concerning the profile of Ethiopian companies, Hamilton (2007) clarified that the overwhelming majorities of Ethiopian companies are family or otherwise closely owned, and although some are relatively substantial businesses, most are small. Accordingly, the overwhelming majority of companies are Private Limited Companies. There are very few widely held companies. As per him, the bulk of Ethiopia's largest companies are owned or controlled by State bodies or political parties. Hamilton pointed out that such companies account for a larger part of the economy than privately owned companies,

which can add a political tone to doing business. State-owned companies are not organized under the company law and thus not subject to its rules and protective provisions.

#### 2.3.4 Corporate governance in Ethiopia<sup>0</sup>

Negash (2008) studied the overall corporate governance of Ethiopia. He used the corporate governance thematic area of the African Peer Review Mechanism (APRM) instruments to analyze the corporate governance situations of Ethiopia. He concluded that the overall standard of corporate governance is disappointing. More specifically,

- i. The Commercial Code of 1960 does not provide adequate legislative response to complex governance issues of the day, and the new draft corporate law has not yet been finalized;
- ii. Investor and creditor protection laws are inadequate,
- iii. There is no organized share market and valuation and price discovery are problematic;

Additionally, Negash noted that one key institution that is missing in Ethiopia is a stock market. This void is a serious deficiency, and makes corporate governance reforms more difficult than they already are. Allowing sound companies to list in foreign stock exchanges should also be considered.



### **2.3.5 Separation of Ownership and Control in Ethiopian Share Companies**

As Gebremeskel (2010) asserted ownership and control are often concurring attributes in the ordinary situation of property ownership. In the context of publicly held companies, a phenomenon occurs whereby the persons who own the company are precluded from controlling it. The reason for this is that as the number of shareholders rises, control is delegated to managers, and shareholders are limited to ineffective control via shareholder general meetings. Gebremeskel (2010) posits that the separation between ownership and control is growing in Ethiopia, and submitted some empirical evidence in support of this claim.

The share company is one of the forms of business organizations recognized under the Ethiopian Commercial Code. It is established through the issuance of shares to an unlimited number of members as provided for by Articles 304-509 of the Commercial Code. Publicly held share companies give rise to a host of complex corporate governance issues.

### **2.3.6 The Evolution of Ownership and Control in Ethiopian Share Companies**

The Commercial Code of Ethiopia has been facilitating the formation of share companies since its enactment in 1960. However; the formation of Share Companies was suspended during the Military Regime and was resumed only during its final years when it issued a policy of mixed economy and mainly after the collapse of the regime in 1991. Most of the companies formed at the beginning were private limited companies. The last years

(i.e., 2008 - 2011) in Ethiopia have seen an unprecedented growth in the number of companies under formation through initial public offer of shares (IPOs).

### **2.3.7 Level of Minority Right Protection**

Gebremeskel (2010) studied the level of minority right protection in Ethiopia by looking at the 1960s' commercial code of Ethiopia and is presented as follows. The concept of minority shareholder protection is relative and can only be explained in relative terms. If we look at the Commercial Code of Ethiopia, two of these rights (under number 5 and 6) are provided clearly. Voting by proxy is provided in Articles 398(1) and 402 but no voting by mail is allowed. Gebremeskel (2010) concluded that the corporate climate in Ethiopia is changing with the emergence of newer companies with several thousand shareholders who have no control over the company. In such cases, control over the company is left in the hands of a few managers who in the worst case scenario may in turn be controlled by block holders.

Gebremeskel (2010) highly emphasized that in order to expedite exit rights there is an urgent need to introduce stock markets. In the absence of organized stock markets there can be no meaningful right of exit. Moreover, there is adequate shareholding constituency in Ethiopia to support a viable stock market. It is to be noted that only 6000 shareholders had created a relatively functional stock market during Emperor Haile Selassie's reign. This is almost half of the number of shareholders in Buna Bank.

## Chapter 3 Research Design

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The preceding chapter has indicated the research design used and it starts with the presentation of research objectives.

### Research Objectives

**The following are the general objectives of the thesis;**

- iii. To identify whether or not Ethiopian companies meet the listing requirements of African stock exchanges;
- iv. To assess the strengths and weaknesses of Ethiopian companies in relation to stock exchanges listing requirements for the establishment of a stock exchange;

**To achieve the general objective, the following are the specific objectives of the thesis;**

- f. To check whether or not Ethiopian companies can be listed abroad in other countries stock exchange particularly in Africa by meeting both the qualitative and quantitative (corporate governance) listing requirements;
- g. To identify the availability of qualified companies in Ethiopia for the establishment of stock exchange;
- h. To design a hypothetical listing requirements for Ethiopian companies so that companies can prepare itself to meet it and to be listed home when a stock exchange is established in Ethiopia;

- i. To investigate the determinants of listing requirements of African stock exchanges;  
and
- j. To identify factors that affect Ethiopian companies' meeting of the listing requirements of African stock exchanges?

### **3.1 Quantitative research approach**

In quantitative studies, according to Creswell (2003) and Dawson (2002) researchers advance the relationship among variables and pose this in terms of questions or hypotheses. A quantitative approach is one in which the investigatory primarily uses postpositive claims for developing knowledge (i.e., cause and effect thinking, reduction to specific variables and hypotheses and questions, use of measurement and observation, and the test of theories), employs strategies of inquiry such as experiments and surveys, and collect data on predetermined instruments that yield statistics data (Adams et. al, 2007; Marczyk, DeMatteo and Festinger, 2005). Postpositivism reflects ad deterministic philosophy in which causes probably determine effects or outcomes and thus the problems studied by psotpositivits reflect a need to examine causes that influence outcomes, such as issues examined in experiments (Biggam, 2008; Bazeley, 2002).

### **3.2 Qualitative research approach**

Qualitative approach, according to Creswell (2003) is one in which the inquirer often makes knowledge claims based primarily on constructivist perspectives i.e., the multiple meanings of individual experiences meanings socially and historically constructed, with

an intent of developing a theory. Constructivism often address the process of interaction among individuals and also focus on the specific contexts in which people live and work in order to understand the historical and cultural settings of the participants. In this situation the researcher seeks to establish the meaning of a phenomenon from the view of participants and the researcher collects open-ended, emerging data with the primary intent of developing themes from the data (Belk, 2006; Bazeley, 2002).

### **3.3 Mixed methods approach**

Mixed method is employed for this study. The motivation for using a mixed research approach is to better understand the research problem both quantitatively and qualitatively. According to Creswell (2003) and Kothari (2004) mixed method research is defined as the class of research where the researcher mixes or combines quantitative and qualitative research techniques, methods, approaches, concepts or language into a single study. Philosophically, mixed research makes use of the pragmatic method and system of philosophy. Its logic of inquiry includes the use of induction (or discovery of patterns) and deduction (testing of theories and hypotheses).

Mixed methods research has the following advantages: can provide quantitative and qualitative research strengths; researcher can generate and test a grounded theory; can answer a broader and more complete range of research questions because the researcher is not confined to a single method or approach; a researcher can use the strengths of an additional method to overcome the weaknesses in another method by using both in a research stud, etc

As per Bazeley (2002) and Hesse-Biber (2010), on the other hand, mixed method is not without weakness so that it has the following weaknesses. It can be difficult for a single researcher to carry out both qualitative and quantitative research. In addition, researcher has to learn about multiple methods and approaches and understand how to mix them appropriately.

### **3.3.1 Sequential mixed design**

The type of mixed method design that the researcher used for this study is a sequential mixed design. Sequential procedures, in which the researcher seeks to elaborate on or expand the findings of one method with another method (Creswell, 2003). In this study the researcher used a sequential procedure in which it begins with quantitative method followed by qualitative method.

### **3.4 Research method: quantitative aspect**

The quantitative aspect of the research method intends to elicit data needed to investigate whether or not Ethiopian companies meet the quantitative listing requirements of African stock exchanges. Specifically, the current study employed a survey design administered through direct self-administered questionnaires to collect a quantitative data from Ethiopian companies. The quantitative listing requirements of the survey of African stock exchanges are downloaded from the website of each exchange.

#### **3.4.1 Survey: questionnaires**

To gather data relevant for the determination of whether or not Ethiopian companies meet the quantitative listing requirements and the data to examine the determinants of listing

requirements, the study used a survey method with self-administered questionnaires, which were administered through face-to-face distribution and collection of data from Ethiopian companies and quantitative data downloaded from the websites of sample stock exchanges. In this regard, Fowler (1984) noted that the strengths of survey methods that result in their wider use included the value of statistical sampling, consistent measurement, and the ability to obtain information not systematically available elsewhere or in the form needed for analysis. The study uses a cross-sectional survey in which Data are collected at one point in time from a sample selected to represent a larger population (Creswell, 2003).

Survey method has the following advantages as summarized from Kothari (2004); Smith (2003); and Rajasekar, Philominathan and Chinnathambi (2006): i) survey can be used to collect many different kinds of information, ii) survey is quick and low cost as compared to observation and experimental method

On the other hand, survey design has the following limitations, according to Saris and Gallhofer (2007) and Walden (2002): i) respondent's reluctance to answer questions asked by unknown interviewers about things they consider private, ii) busy people may not want to take the time.

The researcher used self prepared closed ended questionnaires to collect the data required from the sample companies. Questionnaires have advantages like questionnaires follow a set format and most responses can be entered easily into a computer for ease of analysis, greater numbers can be distributed (Hesse-Biber, 2010). Even though the questionnaire

has its own advantages it is not without demerits like design problems, questions have to be relatively simple, low response rate, time delay whilst waiting for responses to be returned, require a return deadline, several reminders may be required, not possible to give assistance if required, problems with incomplete questionnaires, etc (Hesse-Biber. 2010; Saris and Gallhofer, 2007).

It was administered through face to face because the sample size is small and it is good for high response rate. In addition, it has good response rates and good to avoid refusal biases as well as control over who completes the questionnaires is also good. Of course it has a disadvantage of low speed and high cost.

### **3.5 Population, sample and variables**

#### **3.5.1 Population**

The Ethiopian companies that are established after 1994 by offering shares to the public and all African stock exchanges are taken as a population for this thesis. As per the data obtained from the MoTI and NBE there are more than 25 companies that are established since 1994 by offering shares to the public. As per the data from the websites of ASEA there are 21 stock exchanges in Africa.

#### **3.5.2 Sample**

17 Ethiopian companies and 15 African stock exchanges are selected from the population of 25 and 21 respectively. The used the following criteria to select the sample.

The researcher selects sample Ethiopian companies based on the following criteria;

- i) Companies established as a share company after 1994;
- ii) Companies that are established by offering their shares to the public;
- iii) Companies that have a minimum of two years of operating history after establishment;

The researcher founded 17 companies that qualify the above criterions.

In addition, the researcher used the following criterion to select the sample African stock exchanges;

- i) Stock exchanges that has a website in the name of the exchange;
- ii) Stock exchange that has a listing requirements on their websites; and
- iii) Stock exchanges that has a listing requirement on their website in English language.

15 stock exchanges are selected based on the above criteria.

### **3.5.3 Sampling**

The researcher used a purposive sampling method to select the sample Ethiopian companies and to select sample African stock exchanges. Purposive sampling occurs when a researcher chooses a particular group or place to study because it is known to be of the type that is wanted (Kothari, 2004 and Hesse-Biber, 2010). Particularly, the researcher used criterion sampling in which the researcher set criteria and pick all cases that meet that criterion. In this regard the researcher of this thesis identified the African stock exchanges and the Ethiopian companies that are established by offering shares to the public. Purposive sampling seeks participants or sights that will best help understand the research problem (Creswell, 2003).

### **3.6 Research method: qualitative aspect**

While the quantitative method intends to assess whether or not Ethiopian companies meet the listing requirements of African stock exchanges and investigated the determinants of listing requirements of African stock exchanges and the listing of Ethiopian companies.

The quantitative aspect of this research intends to check whether or Ethiopian companies meet the qualitative (corporate governance) listing requirements. The quantitative listing requirements of African stock exchanges are guided in accordance with the OECD's corporate governance principles. Ethiopian companies' corporate governance principles are in accordance with the Commercial Code of Ethiopia. Thus, the researched compared the OECD corporate governance principles and the commercial code of Ethiopia. The OECD's corporate governance principles are downloaded from the website of OECD ([www.oecd.org](http://www.oecd.org)). In addition the commercial code of Ethiopia is downloaded from the website of MoTI.

### **3.7 Data**

#### **3.7.1 Primary Data**

Primary data mean original data that have been collected specially for the purpose in mind. The researcher used questionnaire to collect the primary data from the sample Ethiopian companies.

#### **3.7.2 Secondary Data**

The researcher downloaded the secondary data from the websites of sample stock exchanges and also downloaded the OECD's corporate governance principles from the website of OECD. In addition the researcher downloaded the commercial code of Ethiopia from the website of the Ministry of Trade and Industry (MoTI).

### 3.8 Variables for the Model

#### i. Determinants of capital listing requirements of African stock exchanges

**Dependent variables:** Listing requirement of African stock exchanges particularly capital

**Independent variables:** GDP of countries in which the sample stock exchange taken

#### ii. What factors affect companies' number of meet of all the requirements of sample stock exchanges?

**Dependent variables:** Number of stock exchanges in which each company meets all of the listing requirements

**Independent variables:** Sample companies' Capital, securities paid or not, number of shares issued, par value of shares, operating history, net assets and profit.

#### iii. What factors affect the number of companies that meet all the requirements of each exchange?

**Dependent variables:** Number of companies met the requirements of each exchange

**Independent variables:** Number of exchanges listing requirements, capital requirements of exchanges, public float requirement, number of shareholders requirement, etc.

### 3.9 Assumptions

This thesis has the following assumptions:

- i) **Assumptions regarding African stock exchanges:** the African stock exchanges are assumed to accept Ethiopian companies to be listed there.
- ii) **Assumptions regarding the model:** in the model, it is assumed that the data of dependent and independent variables are in accordance with the OLS regression assumptions. These assumptions are tested using a statistical software and are complied with it.
- iii) **Assumptions regarding the public float:** in this research the public float of Ethiopian companies are assumed floated. In other words, it is assumed that most companies' shares are owned by the individual shareholders.
- iv) **Assumptions regarding the sample companies:** in this regard, it is assumed that the sample companies are interested and willing to list their shares in foreign stock exchanges.
- v) **Assumptions regarding foreign listing:** it is assumed that the legislation or the regulatory body about Ethiopian companies is willing and volunteer to allow Ethiopian companies to be listed abroad.

### 3.10 Data analysis tools analysis procedures

The researcher used both quantitative and qualitative analysis tools. SPSS version 17 is used for the analysis of quantitative data. It was used to analyze the number and percentage of sample companies that meet and do not meet the listing requirements of

each exchange descriptively. Also, it was used to run a linear regression of the variables relationship in the study and also used to calculate the correlation coefficient between the variables. In this regard, a *two tailed t-test* is used to test the relationship between the variables. For the analysis of qualitative data comparative analysis was used to compare the OECD's corporate governance principles with the commercial code of Ethiopia share companies' regulation regarding governance.

## Chapter 4 Data analysis and interpretation

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### 4.1 Descriptive Analysis of quantitative listing requirements

In this chapter, the data is analyzed after it is collected from the websites 15 sample African stock exchanges and from the 17 sample Ethiopian companies. The data analysis procedure employed by the researcher is presented as follows. First, the data from 15 African stock exchanges is summarized in tables and the number and percentages of companies that 'meet' and 'do not meet' the listing requirements of each exchange are identified. After that, the numbers of companies that meet and do not meet the quantitative listing requirements are presented using a figure followed by the detail analysis. In this section, the researcher used tables, graphs and percentages as a data analysis tool. The statistical software SPSS version 17 was also used by the researcher for the data analysis.

### Profile of sample Ethiopian companies

The researcher took 17 sample companies to achieve the objectives of the thesis. Out of the total 17 companies, 10(59%) are banks, 6(36%) are insurances, and 1(5%) are from other sector.

### Profile of sample African stock exchanges

15 sample African stock exchanges are taken for the purpose of this research.

#### 4.1.1 Analysis by stock exchanges

The following sections contains the analysis of whether or not Ethiopian companies meet the quantitative listing requirements of each of the 15 sample African stock exchanges using tables, graphs and percentages.

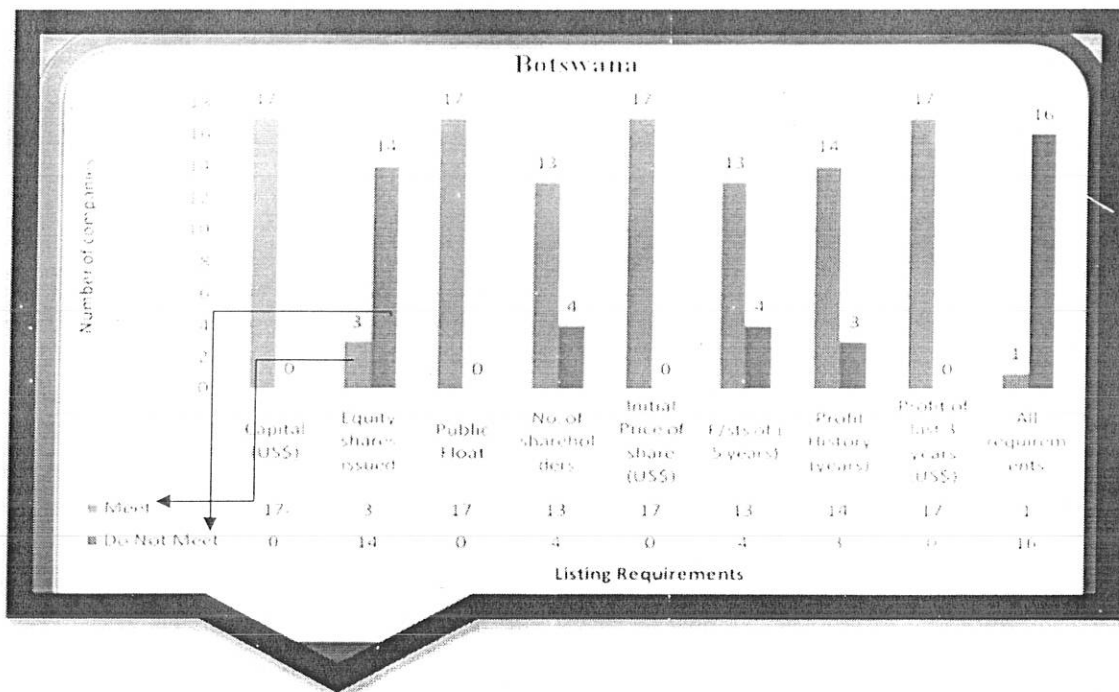
##### 4.1.1.1 Botswana/Botswana Stock Exchange

Table 4.1 Botswana stock exchange listing requirements

Minimum capital (US\$)	Minimum equity shares issued	Minimum Public Float	Minimum No. of shareholders	Minimal Initial Price of share (US\$)	Financial statements ( 5 years)	Profit History (years)	Profit of last 3 years (US\$)
151,555	1,000,000	20%	300	0.15156	5	3	151,555

(Source: Survey result of the African stock exchanges)

*Figure 4.1 The number of sample Ethiopian companies that meet and do not meet Botswana stock exchange listing requirements*



As can be seen in the above figure, only 1(15%) company meets the listing requirements of Botswana stock exchange. The reason is that Botswana stock exchange has more stringent requirement in that it has 8 listing requirements. The company that meets the listing requirement is a banking sector company. On average, all sample companies meet the listing requirements of Botswana stock exchange better. When we see the specific listing requirements that are met by most companies, minimum capital, public float, initial price of the security and the minimum profit for the last three years requirements are met by all sample companies.

Regarding the listing weaknesses of Ethiopian companies, minimum equity shares issued (1 million shares) requirement is discovered as not met by the Ethiopian companies. Only 3(18%) companies has issued equity shares of 1 million and above. The rest 14 (82%)

companies have equity shares issued less than 1 million. The reason why the equity shares issued are less than 1 million is because of the price of one share at the time of initial public offering is \$59 which is a high price per share compared to other countries in which \$10 is also possible.

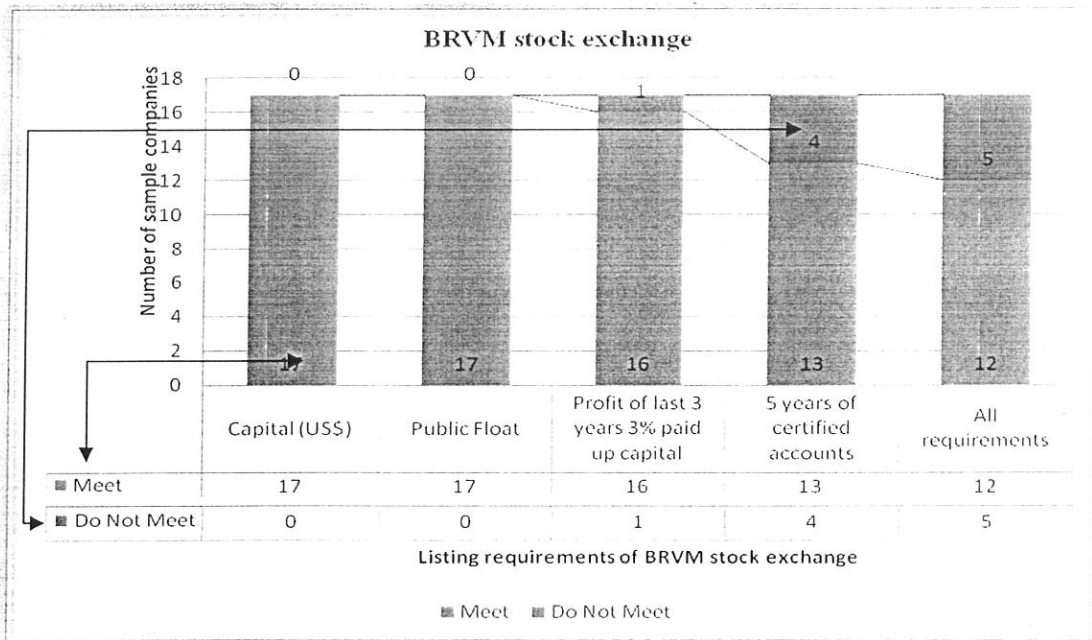
#### 4.1.1.2 BRVM stock exchange

Table 4.2 BRVM stock exchange listing requirements

Minimum capital (US\$)	Minimum Public Float	Profit of last 3 years 3% paid up capital	Present_ years of certified accounts
1,060,770	20%	3%	5

(Source: Survey result of the African stock exchanges)

Figure 4.2 The number of sample Ethiopian companies that meet and do not meet BRVM stock exchange listing requirements



In the stock exchange that serves 8 West African countries, BRVM, 12(70%) Ethiopian companies can be listed because these companies meet all the listing requirements BRVM

stock exchange. Out of the total 12 companies that met the BRVM stock exchange listing requirements 5(29%) are from insurance sector, 1(5%) is from Petroleum sector, and 6(35%) are from banking sector. The reason for having many companies meet the BRVM requirements is because of the less number of valid requirements (4 requirements) and all companies are profitable enough.

Regarding the specific requirements, capital and public float requirement is met by all sample companies. This is because the capital requirement of BRVM stock exchange is less (\$1,060,770) which is even lower than the lowest capital from the sample companies which is \$1,352,941.

As far as concerned, 4(24%) companies failed to meet the 5 years certified accounts requirement because the operating history of those companies is less than 5 years. 1(5%) of the sample company failed to meet the profit requirement because of less operating history and less profit performance in its short operating history.

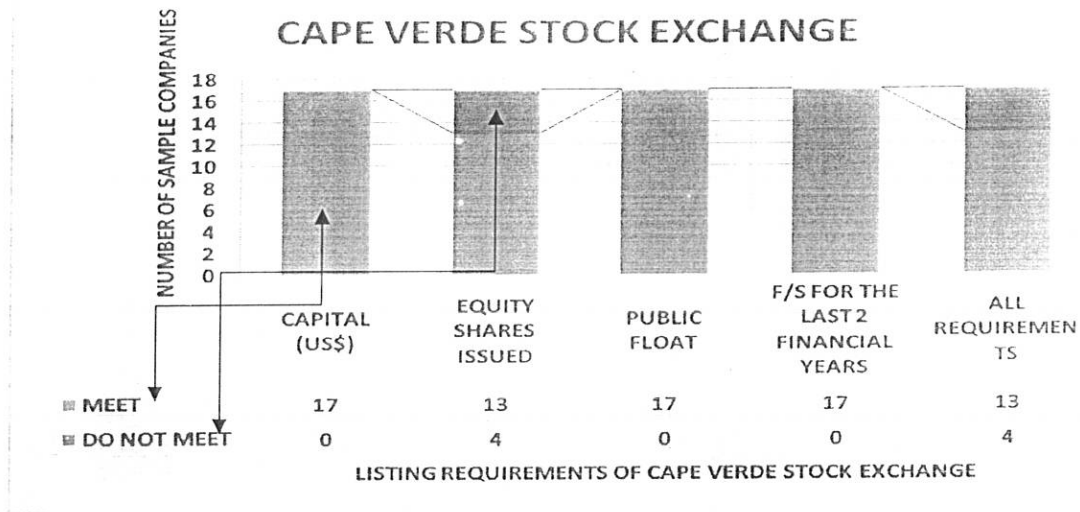
#### 4.1.1.3 Cape Verde stock exchange

Table 4.3 Cape Verde stock exchange listing requirements

Minimum capital (US\$)	Minimum equity shares issued (shares)	Minimum Public Float	F/s for the last _ financial years
1,259,630	50,000	10%	2

(Source: Survey result of the African stock exchanges)

Figure 4.3 The number of sample Ethiopian companies that meet and do not meet Cape Verde stock exchange listing requirements



Out of the total 17 sample Ethiopian companies, 13(76%) companies meet the listing requirements of Cape Verde stock exchange. The reason why these much companies meet the requirements is because of the less number of requirements (4 listing requirements) of the Cape Verde stock exchange. In addition, the existing requirements are less stringent like it requires 2 years of financial statements which allows companies that has short operating history to meet it.

Minimum capital, public float and financial statements of the last 2 years requirements are met by all companies. Concerning the minimum equity shares issued requirement (50,000 equity shares), 4(24%) companies fail to meet it because these companies have equity shares less than 50,000 in number.

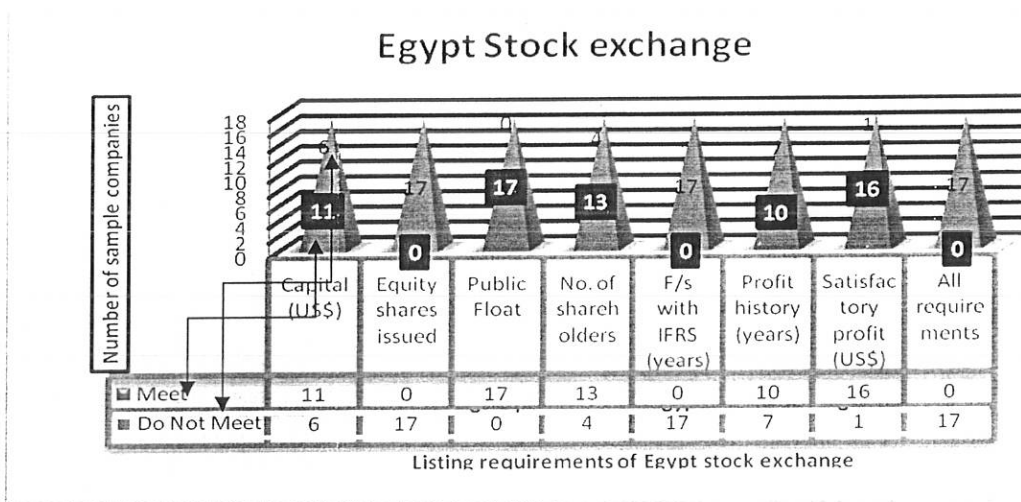
#### 4.1.1.4 Egypt stock exchange

Table 4.4 Egypt stock exchange listing requirements

Minimum capital (US\$)	Minimum equity shares issued	Minimum Public Float	Minimum No. of shareholders	Published audited f/s with IFRS (years)	Profit history (years)	Satisfactory profit (US\$)
3,360,710	2,000,000	30%	150	3	5	5% of paid-in capital

(Source: Survey result of the African stock exchanges)

Figure 4.4 The number of sample Ethiopian companies that meet and do not meet Egypt stock exchange listing requirements



As clearly noted in the above figure, none of the companies meet the listing requirements of Egypt stock exchange. This is because Egypt has more number of listing requirements (7) as compared to other African countries stock exchange (like cape verde and BRVM, Ghana, Nigeria and Cape Verde have 4 listing requirements) and has more stringent requirements in which the minimum requirements per one requirement is higher than other sample stock exchanges minimum requirement. For example, the capital requirement of Egypt stock exchange is \$ 3,360,710 which is the second highest capital requirement next to South Africa stock exchange, 3,712,150.

Regarding the specific requirements, minimum equity shares issued (2 million) and IFRS reporting standard requirements are met by none of the companies. This is because none of the companies has issued 2 million and above shares and none of the companies adopted or used IFRS as a reporting standard; rather GAAP is used by all companies. Satisfactory profit which is 5% of paid up capital is better met by companies because most of the companies are profitable. As a quality of Ethiopian companies, all 17(100%) meet the public float requirement of Egypt stock exchange.

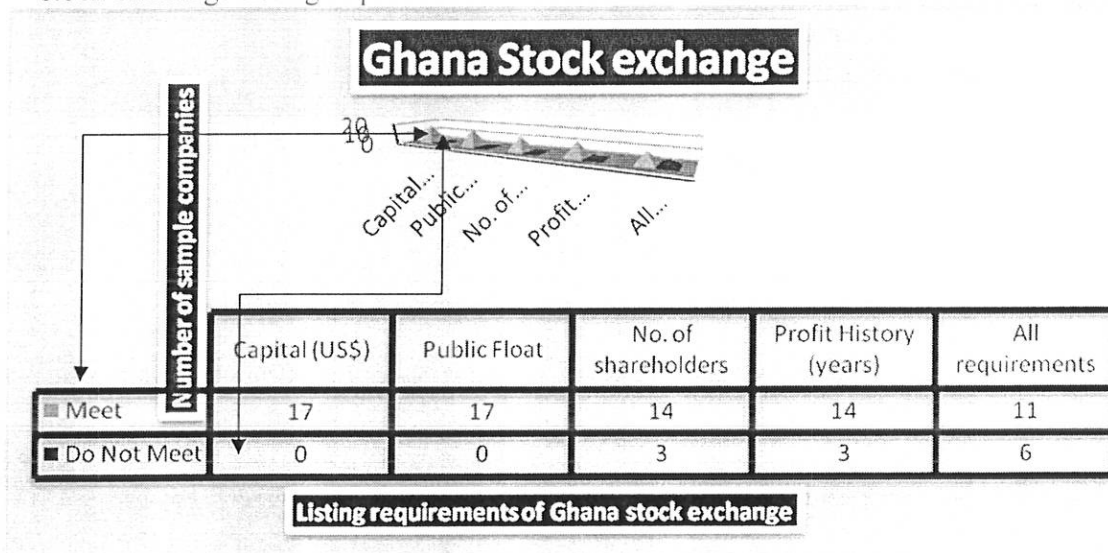
#### 4.1.1.5 Ghana stock exchange

Table 4.5 Ghana stock exchange listing requirements

Minimum capital (US\$)	Minimum Public Float	Minimum No. of shareholders	Profit history (years)
655,308	25%	100	3

(Source: Survey result of the African stock exchanges)

Figure 4.5 The number of sample Ethiopian companies that meet and do not meet Ghana stock exchange listing requirements



As presented in the above table, 11(64%) companies (6 bank and 5 insurance companies) meets the listing requirements of Ghana stock exchange. All requirements of the Ghana stock exchange are better met which is much better than Egypt stock exchange, none meet. The reason is that Ghana has less number of requirements which are only 4 valid requirements which very much lower compared to Egypt stock exchange listing requirements which are 7 valid requirements. In addition the minimum quantitative requirement per a single requirement is not stringent means it is lower. For example the minimum number of shareholders requirement is 100 which are much lower than the average of all sample stock exchanges 300 shareholders. The same is true for profit history requirement which is 2 years so that companies with short operating history met it.

Concerning the specific requirements, minimum public float and minimum capital requirement of Ghana stock exchange is met by all companies in which the capital of all companies is more than \$ 655,308. 3(17%) of the sample companies failed to meet the minimum number of share holders (100 shareholders) and minimum profit history (3 years) requirements each. The reason is that 3(17%) of the sample companies has less than 100 shareholders and has less than 3 years of profit history.

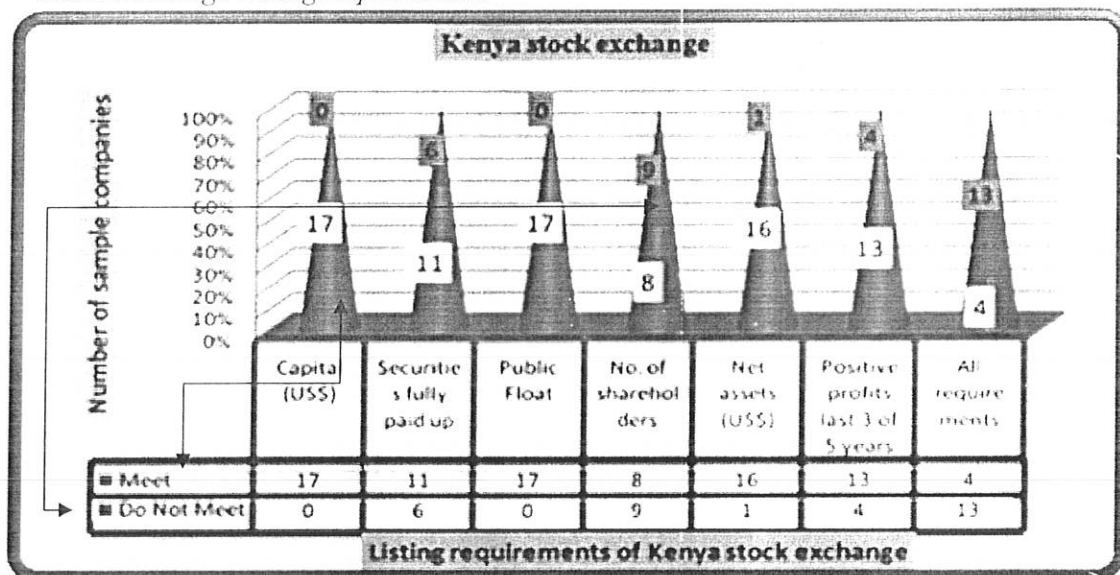
#### 4.1.1.6 Kenya stock exchange

Table 4.6 Kenya stock exchange listing requirements

Minimum capital (US\$)	Securities fully paid up	Minimum Public Float	Minimum No. of shareholders	Minimum Net assets (US\$)	Positive profits last 3 of 5 years
587,509	Yes	25%	1000	1,175,020	3

(Source: Survey result of the African stock exchanges)

Figure 4.6 The number of sample Ethiopian companies that meet and do not meet Kenya stock exchange listing requirements



Regarding Kenya's stock exchange 4(23%) of the sample companies met the listing requirements. All companies that met the listing requirements of Kenya's stock exchange are from bank sector. Other sectors, insurance and petroleum, are failed to meet the requirements. The main listing deficiency of these companies, as can be seen above, is that all insurance and petroleum companies are failed to meet the minimum number of shareholders requirement which is 1000 shareholders. Three banking companies are also failed to meet the minimum shareholders requirement.

When we look at how much percentage of the sample companies meet the specific requirements, the minimum capital requirement and public float requirement are met by all sample companies. But the minimum number of shareholders requirement is met by only 8(47%) companies in which all are from banking sector. The majority of the sample companies 9(53%) have shareholders that are less than 1000, the minimum numbers of

shareholders requirement of Kenya stock exchange. The other listing deficiency of the sample companies is that 6(35%) of the companies securities are not fully paid up so that these companies are failed to meet the securities must be fully paid up requirement.

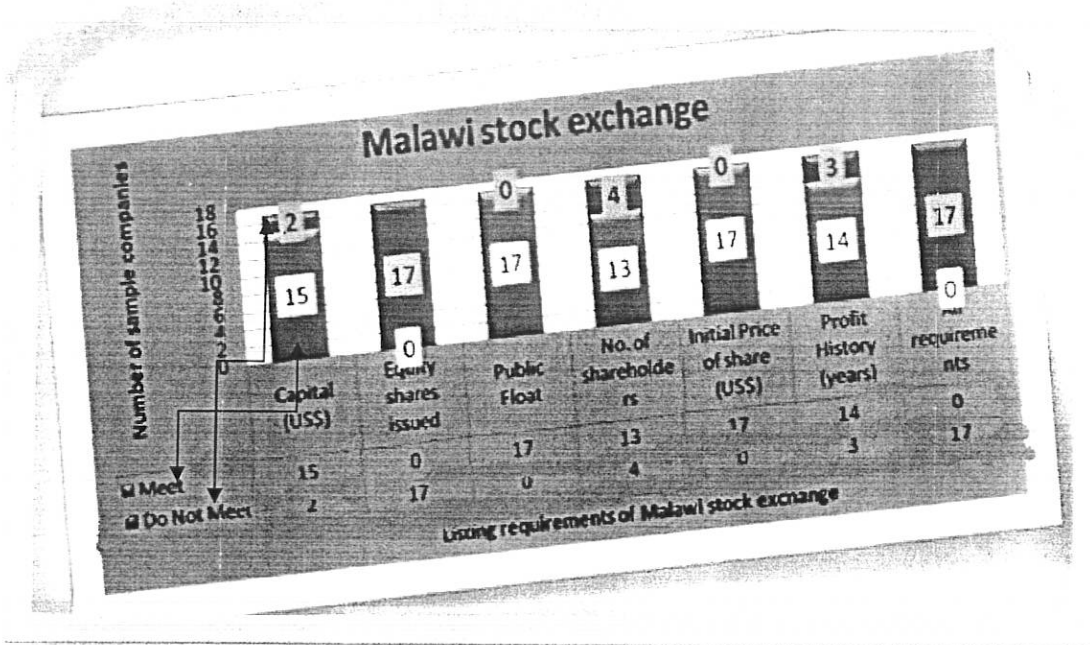
#### 4.1.1.7 Malawi stock exchange

Table 4.7 Malawi stock exchange listing requirements

Minimum capital (US\$)	Minimum Equity shares issued	Minimum Public Float	Minimum No. of shareholders	Minimum initial issue price (US\$)	Profit history (years)
1,624,970	30,000,000	25%	300	0.00650	3

(Source: Survey result of the African stock exchanges)

Figure 4.7 The number of sample Ethiopian companies that meet and do not meet Malawi stock exchange listing requirements



Unfortunately, none of the sample companies meet the listing requirements of Malawi's stock exchange. On average, the Malawi's stock exchange requirements are met by all

sample companies in which the highest is 17(100%) and the lowest is 13(76%). The reason why none of the sample companies failed to meet the Malawi's stock exchange listing requirements is that all companies issued shares are less than 30 million in number. This is a single requirement none of the sample companies met.

Thus, the minimum number of equity shares issued requirement of Malawi stock exchange is the major listing deficiency of sample companies. The other listing deficiency of the sample companies is that most of the sample companies, 11(65%), are failed to meet the minimum number of shareholders requirement which is 300. This means that 6(24%) of the sample companies have shareholders less than 300. In addition 2(12%) of the companies have a profit history of less than 3 years so that failed to meet the minimum profit history requirement.

Regarding initial security price requirement, all companies met that because the price per share of all companies is more than \$ 59 which is much higher than the minimum requirement of Malawi stock exchange, \$ 0.0065. Finally, the minimum public float requirement of Malawi stock exchange is met by all 17(100%) sample companies.

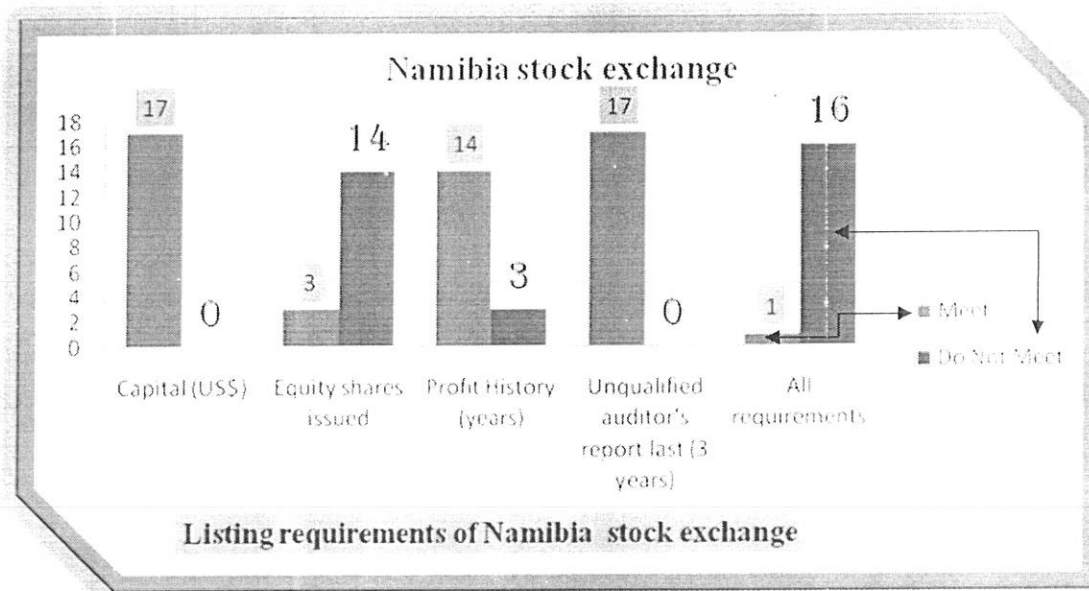
#### 4.1.1.8 Namibia stock exchange

Table 4.8 Namibia stock exchange listing requirements

Minimum capital (US\$)	Minimum Equity shares issued	Profit History (years)	Unqualified auditor's report last (years)
146,317	1,000,000	3	3

(Source: Survey result of the African stock exchanges)

Figure 4.8 The number of sample Ethiopian companies that meet and do not meet Namibia stock exchange listing requirements



As presented in the above figure, only 1(5%) company meets all the listing requirements of Namibia stock exchange. This company is from the banking sector company. Namibia stock exchange has only 4 requirements but only one company meets these requirements. Even though Namibia stock exchange has only 4 listing requirements, these requirements are more stringent. In other words, some of the requirements particularly the minimum number of equity shares issued requirement is more stringent than other requirements. But on average, each of the companies meets the 74% of the requirements of Namibia stock exchange.

Minimum capital, public float and unqualified auditor's report for the last 3 years requirements are met by all of the sample companies. All companies have a capital of more than \$ 52,245 and unqualified auditor's report for the last three years and more.

Most of the sample companies 14(83%) failed to meet the minimum number of equity shares issued requirement because these companies have less than 1 million equity shares. This is the major listing deficiency of Ethiopian companies for meeting the Namibia stock exchange. In addition, 20% of the companies failed to meet the profit history (3 years) requirement. This is because these companies have a profit history of less than 3 years.

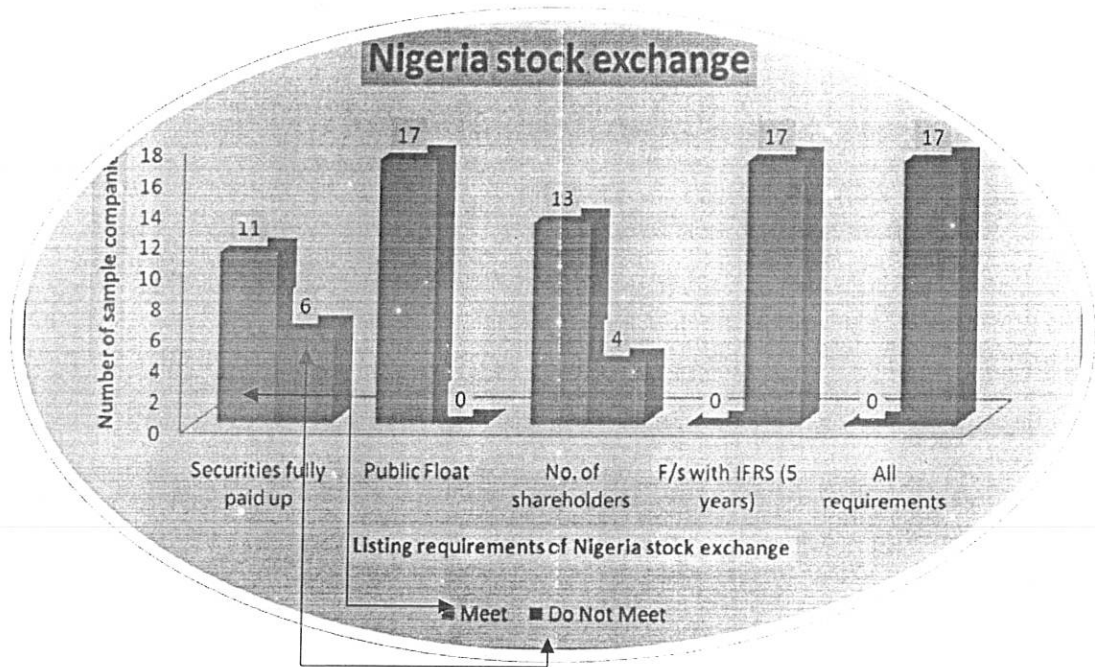
#### 4.1.1.9 Nigeria stock exchange

Table 4.9 Nigeria stock exchange listing requirements

Securities fully paid up	Minimum Public Float	Minimum No. of shareholders	Published audited F/s with IFRS (years)
Yes	25%	300	5

(Source: Survey result of the African stock exchanges)

Figure 4.9 The number of sample Ethiopian companies that meet and do not meet Nigeria stock exchange listing requirements



As can be observed in the above figure, none of the sample companies meet the listing requirements of Nigeria stock exchange. Like in other stock exchanges the reporting standard listing requirement is the major obstacle for Ethiopian companies to meet the Nigeria's exchange quantitative listing requirement.

Even though Nigeria has only four listing requirements which are much lower than other stock exchanges for example Botswana stock exchange eight and Egypt and Tanzania stock exchanges seven, none of the sample companies meet these requirements. The main reason for this is that Nigeria stock exchange has more stringent listing requirements like the securities must be fully paid up requirement and IFRS reporting standard. None of the sample companies adopted IFRS as their reporting standard.

The minimum public float requirement of Nigeria stock exchange is met by all, 17(100%) of the sample companies. The next requirement that is met better by the sample companies is the minimum number of shareholders requirement (300 shareholders). 13(76%) of the companies meet this requirement means that these companies has shareholders of 300 and more. The other requirement that is met better next to the number of shareholders requirement is the securities must be fully paid up requirement. It is met by 11(64%) of the sample companies. This mean that 11(64%) of the sample companies securities are fully paid up.

The major listing deficiency of the sample companies to meet the Nigeria stock exchange is the reporting standard requirement which is IFRS. 0(0%) of the sample companies meet this requirement. The other listing deficiencies but not the major ones are the securities must be fully paid up and the minimum number of shareholders requirements in which 6(36%) and 4(24%) of the sample companies failed to meet them respectively.

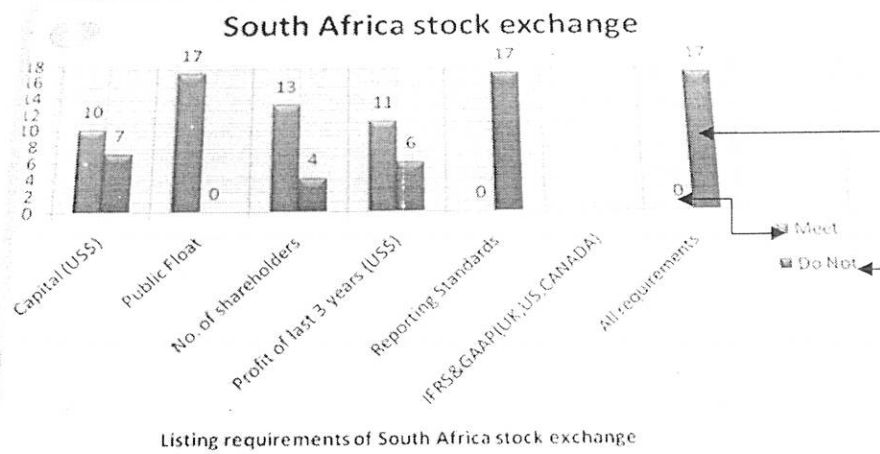
#### 4.1.1.10 South Africa stock

Table 4.10 South Africa stock exchange listing requirements

Minimum capital (US\$)	Minimum Public Float	Minimum No. of shareholders	Profit of last 3 years (US\$)	Reporting Standards
3,712,150	20%	300	1,200,740	IFRS, GAAP (UK, US & Canadian)

(Source: Survey result of the African stock exchanges)

Figure 4.10 The number of sample Ethiopian companies that meet and do not meet South Africa stock exchange listing requirements



None of the sample companies meets all the quantitative listing requirements of South Africa stock exchange. This shows that even though South Africa stock exchange has only five valid requirements these requirements are more stringent for Ethiopian companies to meet them. What makes none of the companies meet all the requirements is the reporting standard requirement (IFRS or GAAP (US, UK, Canadian)). All of the sample companies reporting standard is neither IFRS nor GAAP (US, UK, Canadian).

Out of the five quantitative listing requirements, the minimum public float requirement is met by all 17(100%) of the companies and the minimum number of shareholders requirement is better met by Ethiopian companies, 13(76%). This requirement is met by 13(76%) of the sample companies. In other words, 13(76%) of the sample companies has 300 and greater share holders. The next requirement that is met better by Ethiopian companies is the last three years profit requirement (\$ 1,200,740). 11(64%) of the sample companies meet this requirement means that these companies has a profit of \$ 1,200,740)

and more for the last three years. The last requirement which is met better by the sample Ethiopian companies is the minimum capital requirement (\$ 3,712,150). This requirement is met by 10(58%) of the sample companies and this means that 10(58%) of the sample companies have a capital of \$ 3,712,150 and more.

The basic listing deficiency that hinders Ethiopian companies from meeting the listing requirements of South Africa stock exchange, as said above, is the reporting standard requirement. All of the sample companies failed to meet the reporting standard requirement of South Africa stock exchange. The other deficiencies are capital requirement, profit of the last three years and number of shareholders requirements in which 7(42%), 4(36%), and 4(24%) of the sample companies failed to meet them respectively.

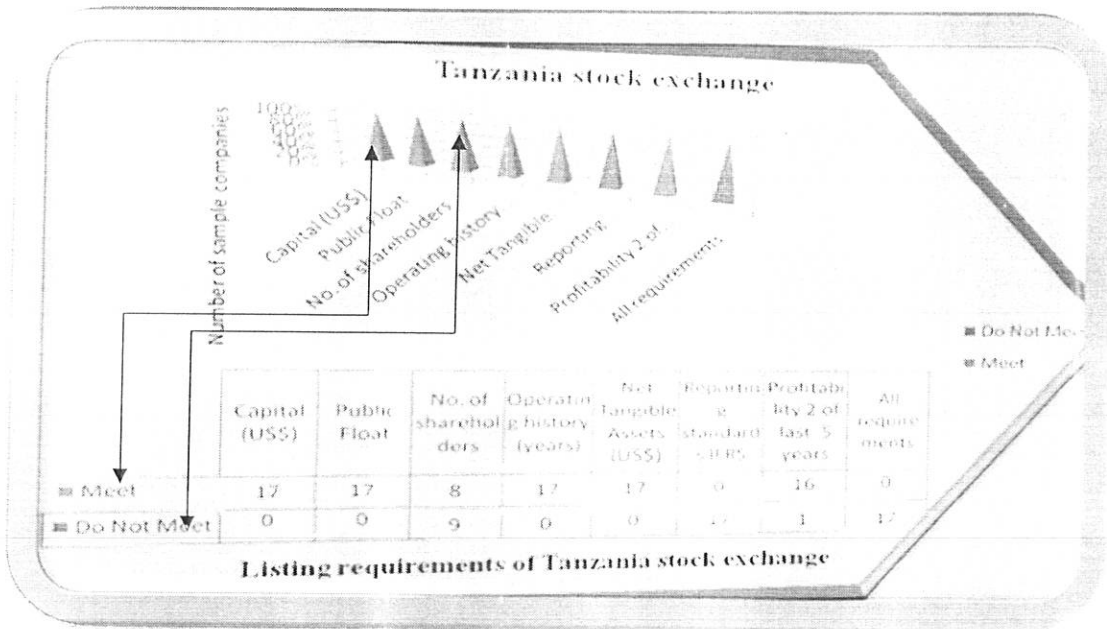
#### 4.1.1.11 Tanzania stock exchange

Table 4.11 Tanzania stock exchange listing requirements

Minimum capital (US\$)	Minimum Public float	Minimum No. of shareholders	Minimum Operating history (years)	Net Tangible Assets (US\$)	Reporting standards and audited F/Ss	Profitability history of of last 5 years
327,090	25%	1000	3	327,090	IFRS	3

(Source: Survey result of the African stock exchanges)

Figure 4.11 The number of sample Ethiopian companies that meet and do not meet Tanzania stock exchange listing requirements



On average, each of the sample companies meet better the listing requirements of Tanzania stock exchange as presented in the above figure. But none of the companies meet all the requirements. This is because Tanzania stock exchange has six valid listing requirements and two of these requirements, minimum number of shareholders and IFRS reporting standard requirements, are more stringent for Ethiopian companies so that failed to meet them.

Out of seven quantitative listing requirements, four of the requirements are met 100% by all companies. These requirements are minimum capital (\$ 327,090), operating history of three years, public float and net tangible assets (\$ 327,090). In other words, all of the companies have met the minimum requirements for these four listing requirements.

The reporting standard requirements of Tanzania stock exchange is met by none of the companies because none of the sample companies adopted IFRS as a reporting standard. This is the major deficiency of Ethiopian companies to meet the reporting standard requirements of foreign stock exchange in general and Tanzania stock exchange in particular. The other requirement that is difficult for Ethiopian companies to meet is the minimum number of shareholders (1000 shareholders) requirement. 9(53%) of the companies failed to meet this requirement means that these companies has shareholders less than 1000. This situation is occurred in all of the sample insurance companies in that none of the insurance companies has 1000 and more share holders.

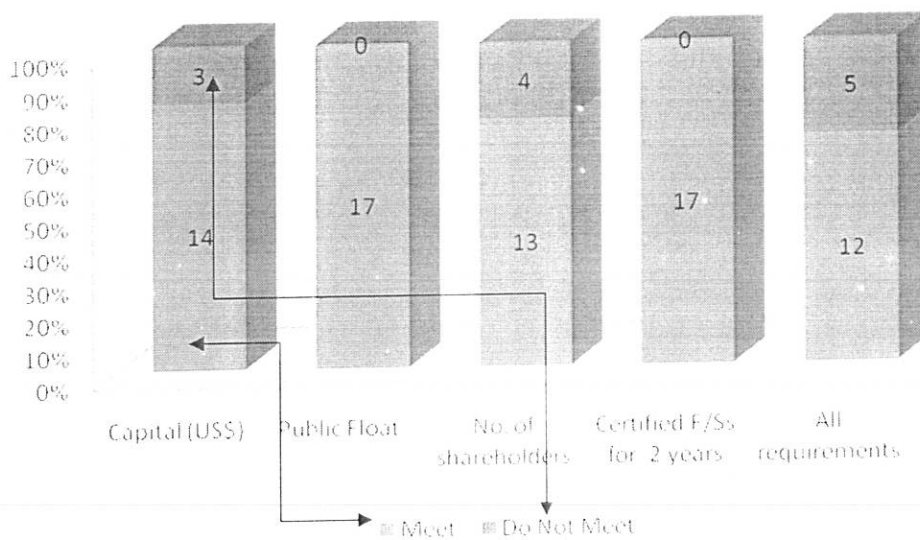
#### 4.1.1.12 Tunisia stock exchange

Table 4.12 Tunisia stock exchange listing requirements

Minimum capital (US\$)	Minimum Public Float	Minimum No. of shareholders	Published the Certified F/Ss for _ years
2,159,810	10%	200	2

(Source: Survey result of the African stock exchanges)

Figure 4.12 The number of sample Ethiopian companies that meet and do not meet Tunisia stock exchange listing requirements



Because Tunisia stock exchange has only four valid and less stringent requirements, 12(70%) of the companies meet the requirements, each of the company better meets the listing requirements of Uganda stock exchange. From the 12 companies that met the listing requirements, 9 (75%) of them are banks and the rest 3(25%) are insurance companies. Meeting the requirements is better by banks than insurances because some insurance companies failed to meet the minimum capital and shareholders requirement. These companies have a capital of less than \$ 2,159.810 and shareholders of less than 200.

The certified financial statements for two years requirement is met by 17(100%) of the companies. Because all of the companies have operating history of more than 2 years and in these years all companies prepared audited financial statements. In addition, the minimum public float quantitative listing requirement (10%) is met by all 17 companies.

Having shareholders of less than 300 by 4(24%) of the companies can be taken as the major listing deficiency of the companies in Tunisia stock exchange. Additionally, 3(18%) of the

sample companies failed to meet the minimum capital requirement which is \$ 2,159,810. This means that these companies have a capital of less than \$ 2,159,810. These two requirements can be taken as the listing deficiencies of Ethiopian companies for meeting the Tunisia stock exchange.

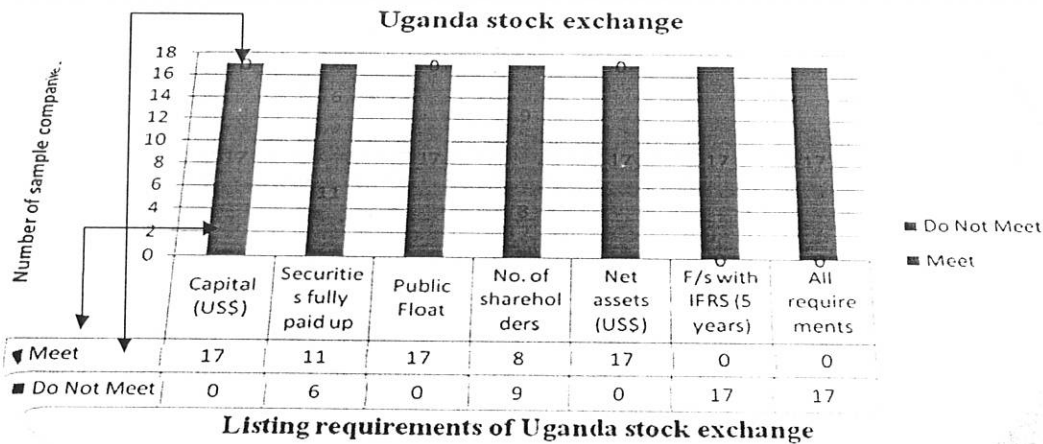
#### 4.1.1.13 Uganda stock exchange

Table 4.13 Uganda stock exchange listing requirements

Minimum capital (US\$)	Securities fully paid up	Minimum Public Float	Minimum No. of shareholders	Net assets (US\$)	Published audited F/s with IFRS (years)
414,535	Yes	20%	1000	829,900	5

(Source: Survey result of the African stock exchanges)

Figure 4.13 The number of sample Ethiopian companies that meet and do not meet Uganda stock exchange listing requirements



As presented in the above figure, Uganda stock exchange listing requirements are met by none of the Ethiopian sample share companies because none of the sample companies adopted IFRS reporting standard. But on average, each of the companies meets 62% of the requirements. Out of the 17 sample companies on average banks met better than the

insurances companies because insurance companies meets less on average than banks is that all (6) insurance companies failed to meet the minimum number of shareholders requirement. The minimum number of shareholders requirement of Uganda stock exchange is 1000 shareholders. Thus, all insurance companies have less than 1000 shareholder each.

Minimum capital, public float and net assets requirements of Uganda stock exchange is met by all the sample companies in which all of the companies has a capital of more than \$ 414,535 and a net asset of more than \$ 829,900.

Regarding the listing deficiency of companies for Uganda stock exchange, all companies failed to meet the reporting standard requirement in which none of the companies use IFRS for reporting purpose. In addition, 9(53%) of the companies unable to meet the minimum number of shareholders requirement (1000 shareholders) means that these companies have less than 1000 shareholders.

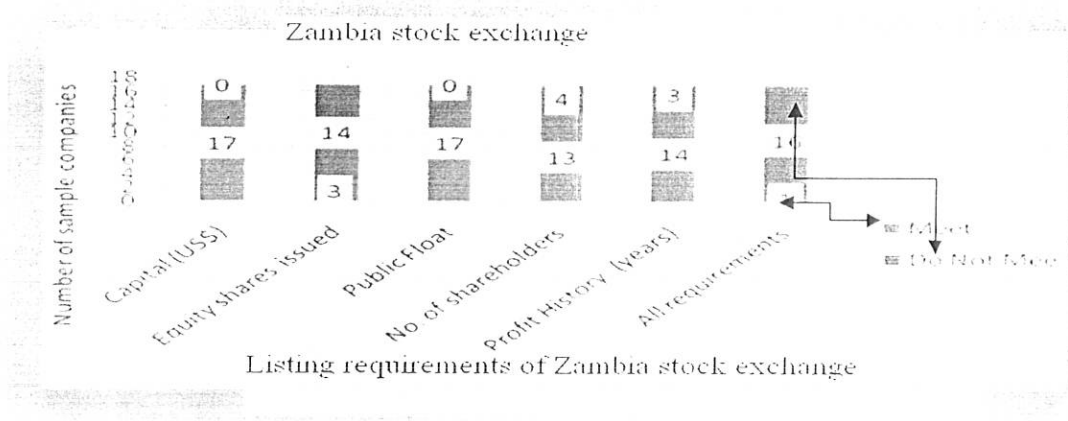
#### 4.1.1.14 Zambia stock exchange

Table 4.14 Zambia stock exchange listing requirements

Minimum capital (US\$)	Minimum equity shares issued	Minimum Public Float	Minimum No. of shareholders	Profit history (years)
52,245	1,000,000	25%	300	3

(Source: Survey result of the African stock exchanges)

Figure 4.14 The number of sample Ethiopian companies that meet and do not meet Zambia stock exchange listing requirements



As presented in the above figure, 1(5%) company from banking sector meets the Namibia stock exchange minimum quantitative listing requirements. The rest of the companies 16(94%) failed to meet all the requirements.

The major listing deficiency of the companies here, like in other stock exchanges, is the less number of equity shares issued which is less than 1 million. 14(83%) of the sample companies do this. The other listing deficiency but not the major one is that 4(24%) of the companies have less than 300 shareholders.

The minimum capital requirement, public float requirement and the profit history requirement are met by most of the companies 17(100%), 17(100%) and 88% respectively. 100% or all of the companies have a capital of more than \$ 52,245, a public float of more than 25% and 88% of the companies have a profit history of 3 years and above.

#### 4.1.1.15 Zimbabwe stock exchange

Table 4.15 Zimbabwe stock exchange listing requirements

Minimum capital (US\$)	Minimum equity shares issued	Minimum Public Float	Minimum No. of shareholders	Auditors report for last __ years
1,328	1,000,000	30%	300	5

(Source: Survey result of the African stock exchanges)

Figure 4.15 The number of sample Ethiopian companies that meet and do not meet Zimbabwe stock exchange listing requirements



Out of the total 17 sample companies, 2(11%) of them meet the listing requirements of Zimbabwe stock exchange. 15(88%) of the companies failed to meet all the requirements because of the low number of equity shares that companies issued in which 14(82%) of the companies has lower than 1 million equity shares.

The minimum capital and public float requirements of Zimbabwe stock exchange is met by all companies and auditor’s report for the last 5 years requirement is met by 14(82%) of the

companies. 100% of the sample companies have a capital of greater than \$ 1,328 and 14(82%) of the companies have operating history of 5 years and above.

As presented in the above table the basic listing deficiency of the companies that failed to meet the requirements of Zimbabwe stock exchange is the less number of equity shares issued by the sample companies. Only 3(17) of the companies have equity shares of 1 million and above. The other listing deficiency of the companies here for Zimbabwe stock exchange is the minimum number of share holders in which 4(24%) of the companies has less than 300 shareholders.

## 4.2 The Model

### 4.2.1 Determinants of listing requirements

To find the determinant factors of the listing requirements, the researcher developed the following linear model. Particularly, the model below is designed to find the determinant factor of capital requirement of African stock exchanges. The minimum capital requirement of sample exchanges is regressed for the GDP of exchanges' country. Then, the correlation coefficient of the two variables and the coefficient of  $\beta$  as well as the significance level and the nature of the relationship are analyzed. The model looks like as follows;

$$Y = \alpha + \beta x + \varepsilon$$

Where;

$Y$  = the dependent variable (Minimum capital requirements of African stock exchanges)

$\alpha$  = the constant term of the model

$\beta$  = the coefficient of the independent variable  $x$

$x$  = the independent variable (GDP of sample exchanges' country)

$\varepsilon$  = the error term

#### 4.2.1.1 Correlation between the variables

Using SPSS software, the following level of correlation is found between the minimum capital requirements of African exchanges and GDP of the countries' of sample exchanges. The nature of the relationship between the variables is also identified.

Figure 4.16 Correlation coefficients of GDP and Capital

		Capital requirements of sample exchanges	GDP of sample exchanges' country
Capital requirements of sample exchanges	Pearson Correlation	1	.881**
	Sig. (2-tailed)		.000
	N	14	14
GDP of sample exchanges' country	Pearson Correlation	.881**	1
	Sig. (2-tailed)	.000	
	N	14	15

\*\* . Correlation is significant at the 0.01 level (2-tailed).

As can be seen in the above figure, the correlation coefficient between the two variables is  $r = 0.88$  which very close to one. This is a good indication that there is a clear positive relationship between the capital requirement and GDP. A correlation coefficient above 0.3 indicates there is a positive relationship between the variables. Thus, in this case the nature of the relationship between the variables a positive relationship. The next big

question here is the magnitude of relationship between the two variables. In other words, by how much the dependent variable changes for a unit change in the independent variable. To answer this, a regression analysis is conducted to find the  $\beta$  coefficient. The following result is founded;

#### 4.2.1.2 Model summary

Figure 4.17 Coefficient summaries of the GDP and Capital

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	426896.7	190596.4		2.240	.045
	GDP of sample exchanges' country	1.57E-005	.000	.881	6.466	.000

a. Dependent Variable: Capital requirements of sample exchanges

Regarding the coefficients,  $\alpha$  has a coefficient of 426896.7 which indicates that without the dependent variables effect, the capital requirement of an exchange will become this much. When we see the significance of the constant, it is significant at 5% significance level. Which means the constant is used as the value of the dependent variable in the absence of the effect of the independent variables.

In addition, the coefficient of the independent variable, its effect level on the dependent variable is 1.57E-005. This shows the relationship between the variables is almost below one or fractions. This means a unit change in the GDP of a country results in a fraction change in the capital requirement of the stock exchanges of a particular country. The

significance level of the independent variable, as can be seen in the above figure indicates that it is significance at 5% significance level, even it is significance at 1% significance level. This because the calculated significance level indicates 0.000 which is almost approaches to zero.

Figure 4.18 Model summaries of the GDP and Capital

Model Summary <sup>b</sup>					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.881 <sup>a</sup>	.777	.758	594263.052	2.245

a. Predictors: (Constant), GDP of sample exchanges' country  
 b. Dependent Variable: Capital requirements of sample exchanges

Concerning the extent of explanation power of the independent variable on the dependent variable, as can be observed in the above figure the adjusted  $R^2$  is equal to 75.8%. This is explained as the GDP of countries explains the characteristics of capital requirement 75.8%. The rest of the characteristics of the dependent variable are explained by other factors that are not modeled here in this model. The higher adjusted  $R^2$  the better relationship between the two variables. In the above figure, the Durbin-Watson test static result of 2.5245 indicates that the data of both the dependent and independent variables have a normal distribution having a mean of 0 and a standard deviation of 1.

Regarding the data tests for OLS regression assumptions, the above residual statics shows that the assumption that says, 'the sum of the residuals must be zero' is properly met in

that the mean of both of the variables residual is zero. The other assumption that is tested here is the normality assumption. For this assumption test the mean and standard deviation test is conducted and resulted in 0 and 1 respectively. This is in line with the OLS assumption.

#### **4.2.2 Determinants of Ethiopian companies number listing of listing on sample exchanges**

To identify the determinants of Ethiopian companies listing on sample African stock exchanges, the researcher modeled the following linear simple model. For this purpose, the number of Ethiopian companies that meet all the requirements of each exchange is taken as a dependent variable and the number of quantitative listing requirements of each exchange is taken as an independent variable. Then, the researcher tried to identify the correlation coefficient  $r$ , the  $\beta$  coefficient, the significance level, the nature of relationship and the magnitude of independent variable explanation. The designed model looks like;

$$Y = \alpha + \beta x + \varepsilon$$

Where;

$Y$  = the dependent variable (number of Ethiopian companies that meets each of the exchange listing requirements)

$\alpha$  = the constant term of the model

$\beta$  = the coefficient of the independent variable  $x$

$x$  = the independent variable (Number listing requirements of sample stock exchanges)

$\varepsilon$  = the error term

#### 4.2.2.1 Correlation between the variables

As can be seen in following figure, there is an inverse relationship between the two variables ( $r = -0.584$ ). The nature of correlation indicates that there is a negative relationship Figure 4.20 Correlation coefficient of number of listing requirements and listings

**Correlations**

		Number of exchanges listing requirements	Number of companies listed per each exchange
Number of exchanges listing requirements	Pearson Correlation	1	-.584*
	Sig. (2-tailed)		.022
	N	15	15
Number of companies listed per each exchange	Pearson Correlation	-.584*	1
	Sig. (2-tailed)	.022	
	N	15	15

\*. Correlation is significant at the 0.05 level (2-tailed)

between the number of companies listed and the number listing requirements. A correlation coefficient between -0.3 and -1 indicates a negative relationship between the variables.

#### 4.2.2.2 Model summary

The following result summarizes the model are presented in the following figures. The first figure presents the model summary, the second table presents the coefficients and the third figure presents the tests conducted towards the OLS regression assumptions.

Figure 4.21 Coefficients of the regression of number of listing requirements and listings

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	15.882	4.792		3.314	.006
	Number of exchanges listing requirements	-2.294	.884	-.584	-2.595	.022

a. Dependent Variable: Number of companies listed per each exchange

First of all, if we look at the significance level of both the constant and the independent variable, both are significant at 5% significance level. Their calculated significance level or p value equals 0.006 for the constant and 0.022 for the independent variable. This portrays that both of them can be modeled to investigate the relationship between the dependent and independent variable. The coefficients of both of the variables can be interpreted as follows.

The coefficient of the constant  $\alpha = 15.882$  indicates that in the absence of the effect of the independent variable on the dependent variable, on average, the number of companies that are likely to meet all the listing requirements of a specific stock exchanges are 15 in number. Whereas, in the existence of the independent variable (number of listing requirements), when the number of listing requirements increases by one, the number of companies that likely to meet the requirements is decreased by 2. In other words, when an exchange decreases its requirements by one the number of companies that meet the requirements increases by two.

Figure 4.22 Summary of the regression of number of listing requirements and listings

Model Summary <sup>b</sup>				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.584 <sup>a</sup>	.341	.291	4.413

a. Predictors: (Constant), Number of exchanges listing requirements  
b. Dependent Variable: Number of companies listed per each exchange

The percentage of the characteristics of the dependent variable that is explained by the independent variable (Adjusted  $R^2 = 29.1\%$ ) indicates that the independent variable is better explained by the independent variable. This is presented in the above model summary figure.

The normality level of the data is good. It indicates that the mean is around 0 and the standard deviation is around 1. An OLS regression assumption requires the mean to be 0 and the standard deviation to be 1. Fortunately, the nature of the data of this model becomes in accordance with the OLS assumptions.

#### 4.2.3 Determinants of the numbers of exchanges that are met by each company

To identify the determinant factors of the number of sample stock exchanges in which their requirements are met by each company, the following multivariate model is developed. The number of sample stock exchanges in which their requirements are met by each company is taken as a dependent variable and the sample companies' capital; securities fully paid up or not; number of equity shares issued; number of shareholders; price of securities; operating history; net assets; profit; and reporting standard are modeled. In some cases, the *natural logarithm (ln)* of the independent variables value is

taken. This is done purposely to make the outlier data normal in case where the raw values are in multi millions. Model is looked like as follows:

$$Y = \alpha + \beta_1 \ln(x_1) + \beta_2 x_2 + \beta_3 \ln(x_3) + \beta_4 x_4 + \beta_5 x_5 + \beta_6 x_6 + \beta_7 \ln(x_7) + \beta_8 \ln(x_8) + \beta_9 x_9 + \varepsilon$$

Where;

**Y** - Number of exchanges that each company meet all the requirements (**Dependent variable**)

$\alpha$  - the constant of the model

$\ln$  = natural logarithm of the independent variables value

$\beta$  - The coefficient of each variable ( $x_1$ ----- $x_9$ )

$x_1$  –  $\ln$  of capital of sample companies

$x_2$  – securities fully paid up or not (Dummy; 1=fully paid up & 0= not fully paid up)

$x_3$  –  $\ln$  of number of shares issued by the companies

$x_4$  - the number of shareholders of each company

$x_5$  – price of securities of the companies

$x_6$  – operating history of the companies (in years)

$x_7$  -  $\ln$  of net assets of the companies

$x_8$  -  $\ln$  of profit of the companies of the last three years

$x_9$  - reporting standards of the companies (Dummy; 1=GAAP & 0=IFRS)

$\varepsilon$  = the error term

After the model is identified, the correlation between the independent variable and dependent variables is determined and presented as follows.

#### 4.2.3.1 Correlation between the variables

Based on the output of the statistical package, SPSS the following correlation coefficient are discovered between the dependent variable (numbers of sample stock exchanges in which their requirements are met by each company) and the nine independent variables.

Table 4.16 Correlation between dependent and independent variables

Correlation (r=?) coefficient between	<u>Dependent variable</u>	Relationship and its nature
	Number of sample stock exchanges in which their requirements are met by each company	
<u>Independent variables</u>		
ln of capital of sample companies	r = 0.182	<i>Not related</i>
securities fully paid up or not	r = 0.524	Positively related
ln of number of shares issued	r = 0.385	Positively related
number of shareholders	r = 0.074	<i>Not related</i>
price of securities (par)	r = -0.308	Negatively related
operating history (years)	r = 0.440	Positively related
ln of net assets	r = 0.624	Positively related
ln of profit of the companies	r = 0.666	Positively related
reporting standards	NA	NA

\*But a negative relationship is found between the number of companies that meet per exchange and exchanges shareholders requirement (r= -0.314)

As can be seen in the above table, there is a positive relationship between the numbers of sample stock exchanges in which their requirements are met by each company (dependent variable) and the independent variables; securities fully paid up or not, ln of number of shares issued, operating history (years), ln of net assets, and ln of profit of the companies. On the other hand, negative relationship is found between the dependent

variable and the independent variable, price of securities (par). Furthermore, no relationship is found between the dependent variable and the independent variables; number of shareholders and ln of capital of sample companies.

Based on the correlation coefficient analysis, the two variables; number of shareholders and ln of capital of sample companies are dropped from the model since there is no relationship is found between these variables and the dependent variable. In addition the reporting standard variable, since it is not recognized by the system, is also dropped from the model. Then the model looks like the following:

$$Y = \alpha + \beta_2x_2 + \beta_3\ln(x_3) + \beta_5x_5 + \beta_6x_6 + \beta_7\ln(x_7) + \beta_8\ln(x_8) + \varepsilon$$

Then, to identify the magnitude of relationship a multivariate regression is used and summarized as follows. This is done to identify only the significant variables that affect the dependent variable.

**4.2.3.2 Model summary**

Finally, a significant relationship is found only between the dependent variable and the two independent variables (numbers of companies' shareholders and whether or not securities are fully paid up or not)

Figure 4.24 The coefficient summary of Variables

Coefficients <sup>a</sup>						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.035	.940		.038	.971
	Securities paid up all or not	3.625	.931	.908	3.891	.002
	Number of shareholders	.001	.000	.629	2.696	.017

a. Dependent Variable: How many countries requirements meet each company

The coefficient of each independent variable reveals the magnitude of the effect of independent variable on the dependent variable. Accordingly, a unit change in the securities fully paid up or not affects the dependent variable by 3 and by 0.001 respectively. Both of these independent variables are significant at 5% significance level. On the other hand, the constant is not significant at 5% significance level. Thus the model is finalized as below:

$$y = \beta_1 x_1 + \beta_2 x_2 + \varepsilon$$

Where;

**y** - Number of exchanges that each company meet all the requirements (**Dependent variable**)

**x1** - securities fully paid up or not (Dummy; 1=fully paid up & 0= not fully paid up)

**x2** - the number of shareholders of each company

$\varepsilon$  - the error term

Figure 4.25 Model summary of the multivariate regression

Model Summary				
Model	R	R Square	Adjusted R Square	Std Error of the Estimate
1	.723 <sup>a</sup>	.522	.454	1.453

a. Predictors: (Constant), Number of shareholders, Securities paid up all or not

The above figure depicts that both of the independent variables can explain 45.4% of the dependent variable's characteristics.

### **4.3 Qualitative listing requirements analysis**

In this section, whether or not Ethiopian companies meet the corporate governance listing requirements of African stock exchanges is analyzed. The researcher takes OECD's 2004 corporate governance principles as a common corporate governance guideline for African countries stock exchange. This is because it is used by African stock exchanges as a common corporate governance guideline. In addition, the researcher takes the 1960s Commercial Code of Ethiopia as a corporate governance guideline for Ethiopian companies, because the corporate governance of Ethiopian companies is guided by the commercial code.

#### **4.3.1 OECD vs. Commercial Code of Ethiopia**

The analysis is divided in to five sections and each section is subdivided in to subsections. The five basic sections are;

- i) the rights of shareholders and key ownership functions,
- ii) the equitable treatment of shareholders,
- iii) the role of stakeholders in corporate governance,
- iv) disclosure and transparency, and
- v) the responsibilities of the board.

Each of the sections is analyzed as follows.

#### 4.3.1.1 The rights of shareholders and key ownership functions

##### **OECD's Principle:**

*The corporate governance framework should protect and facilitate the exercise of shareholders' rights.*

Part II (a-g) of OECD's corporate governance principle covered the basic rights of shareholders. The basic rights given to the shareholders include; shareholders has the right to secure methods of ownership registration, transfer shares they owned, vote in general shareholders meeting, to get regularly material, relevant and timely information, to elect and remove the board, and to share the profits of the corporation.

##### **Commercial Code of Ethiopia**

In connection to the basic rights given to the shareholders, the commercial code of Ethiopia gives shareholders the following rights. The right to be a member, to vote, to challenge a decision of the company or to receive dividends and a share in a winding-up (Art. 389 (2)); the right to take part in ordinary meetings without regard to the number of shares held (Art. 420 (1)), the right to register as a shareholders (Art. 331); the right to share in the profits or in the net proceed on a winding-up (Art. 345 (2)); the right to Appoint directors (Art. 350, Replacement of directors (Art. 351),Removal of directors (Art. 354), and the right to transfer of unrestricted shares (Art. 333).

### **Gap in basic Rights given to Shareholders in the Commercial Code of Ethiopia**

Most of the basic rights given to the shareholders under both cases are almost similar. But under the commercial code of Ethiopia, the right to get relevant and timely information is not given to the shareholders. In addition, the right to transfer shares freely under the commercial code of Ethiopia says that shareholders have the right to transfer unrestricted shares. Here, the word ‘unrestricted’ indicates that there is some restriction in the free transfer of shares by the shareholders. This is contradictory with the OECD’s principle which says shareholders have the right to transfer shares freely without a restriction.

#### **4.3.1.2 The equitable treatment of shareholders**

##### **OECD’s Principle:**

*The corporate governance framework should ensure the equitable treatment of all shareholders, including minority and foreign shareholders. All shareholders should have the opportunity to obtain effective redress for violation of their rights.*

OECD’s principle (Part III (a-c)) contains principles of the equitable treatment of shareholders. All shareholders of the same series of a class should be treated equally; insider trading and abusive self-dealing should be prohibited; minority shareholders should be protected from abusive actions by, or in the interest of, controlling shareholders acting either directly or indirectly, and should have effective means of redress; and members of the board and key executives should be required to disclose to the board whether they, directly, indirectly or on behalf of third parties, have a material interest in any transaction or matter directly affecting the corporation.

### **Commercial Code of Ethiopia**

Under the commercial code of Ethiopia, all shares of the same class shall have the same par value and the same rights (Art. 335(2)). This is similar to the OECD's principle under the equitable treatment of shareholders as presented above. In addition, concerning the rights of the minority shareholders the commercial code of Ethiopia under Art. 352 say, 'Where there are several groups of shareholders with a different legal status, the articles of association shall provide for each group to elect at least one representative on the board of directors.' This is similar to that of the OECD' principle on the protection of minority shareholders. Under the commercial code, minority shareholders can have a representative of at least one in the board of directors.

### **Gap in the Equitable Treatment of Shareholders in the Commercial Code of Ethiopia**

The principle under OECD that says 'any members of the board and key executives should be required to disclose to the board whether they, directly, indirectly or on behalf of third parties, have a material interest in any transaction or matter directly affection the corporation' is not found in the commercial code of Ethiopia. This is gap existed in the commercial code of Ethiopia under the equitable treatment of shareholders specifically the minority shareholders. In this regard Gebremeskel (2010) noted that the protections lacking under the Code are the most important ones that can minimize minority shareholder exploitation by managers and/or block holders, it can be said that the law is inadequate in shareholder protection. Similarly, Petros (2009) stated that the need for

changing the commercial code to address newer governance issues in the booming share companies is very pressing. Areas such as minority rights and recourse need to be considered very seriously.

#### **4.3.1.3 The role of stakeholders in corporate governance**

##### **OECD's Principle:**

*The corporate governance framework should recognize the rights of stakeholders established by law or through mutual agreements and encourage active co-operation between corporations and stakeholders in creating wealth, jobs, and the sustainability of financially sound enterprises.*

The role of stakeholders in corporate OECD's corporate governance principle Part IV (a-f) enclose that; i) the rights of stakeholders that are established by law or through mutual agreements are to be respected ii) where stakeholder interests are protected by law, stakeholders should have the opportunity to obtain effective redress for violation of their rights, iii) performance-enhancing mechanisms for employee participation should be permitted to develop, iv) where stakeholders participate in the corporate governance process, they should have access to relevant, sufficient and reliable information on a timely and regular basis, v) stakeholders, including individual employees and their representative bodies, should be able to freely communicate their concerns about illegal or unethical practices to the board and their rights should not be compromised for doing this, and vi) the corporate governance framework should be complemented by an effective, efficient insolvency framework and by effective enforcement of creditor rights.

## **Commercial Code of Ethiopia**

Unfortunately, there is no article that talks about the role of stakeholders in corporate governance in the commercial code of Ethiopia. Only Art. 366 talks about the board of directors' liability to the creditors.

### **Gap in the Role of Stakeholders in Corporate Governance in the Commercial Code of Ethiopia**

As stated above, stake holders are not recognized under the commercial code of Ethiopia. The only stake holder that gets recognition in the commercial code of Ethiopia is the creditors. Creditors are not given the role to play in the corporate governance of the company rather they are given the right to be paid back by the company in which the board of directors of the company has a liability to the creditors. Thus, the commercial code of Ethiopia, when it is revised, needs to include the role of stakeholders in the corporate governance of the company.

#### **4.3.1.4 Disclosure and transparency**

##### **OECD's Principle:**

*The corporate governance framework should ensure that timely and accurate disclosure is made on all material matters regarding the corporation, including the financial situation, performance, ownership, and governance of the company.*

Part V (a-f) of the OECD's principle included the following as to be disclosed to the stakeholders in general and to the shareholders in particular. These are; disclosure should include material information on i) the financial and operating results of the company ii)

company objectives iii) major share ownership and voting rights iv) remuneration policy for members of the board and key executives, and information about board members, including their qualifications, the selection process, other company directorships and whether they are regarded as independent by the board v) related party transactions vi) foreseeable risk factors vii) issues regarding employees and other stakeholders viii) governance structures and policies, in particular, the content of any corporate governance code or policy and the process by which it is implemented.

### **Commercial Code of Ethiopia**

The commercial code of Ethiopia is contented with the following articles and sub-articles about the disclosure and transparency of share companies. Under Art. 446 of the commercial code covered about the *accounts and annual reports requirement*. These includes i) at the end of each financial year, the directors shall prepare a detailed inventory and valuation of assets and liabilities (Art. 446 (1)) ii) they shall draw up a balance sheet and a profit and loss account and prepare a report on the state of the company's activities and affairs during the last financial year (Art. 446 (2)) iii) the report shall give detailed information on the profit and loss account, an exact statement of the total amount of remuneration of the directors and auditors, and proposals for the distribution of dividends, if any (Art. 446 (3)).

In addition, Art. 448 (1-2) covers issues about drawing-up of the balance sheet and profit and loss account. In this article, the balance sheet and the profit and loss account disclosure requirement is presented; i) the balance sheet and profit and loss account shall

be prepared each year in the same form as in preceding years and the methods of valuation shall remain the same, unless the general meeting adopts variations in the mode of presentation of the accounts or the methods of valuation on the reasoned advice of the auditors, and ii) the profit and loss account shall show under separate heads losses or profits arising out of the company's various activities.

Furthermore, Art. 451 requires accounts of holding companies to be disclosed in that; where a company is a holding company, the accounts of its subsidiaries shall be submitted to the annual general meeting at the same time and in the same manner as its own accounts (Art. 451 (1)) and a consolidated balance sheet and profit and loss account shall be prepared in respect of the holding company and its subsidiaries (Art. 451 (2)).

Besides, statements to be provided concerning remuneration of directors are presented under Art. 361. The balance sheet submitted to the annual general meeting shall show the total amount of remuneration, allowances, annuities, retirement benefits and benefits in kind given to the directors (Art. 361(1)) and the Loans or guarantees to directors shall also be shown (Art. 361(2)).

Regarding the annual audit of the accounts of the company, Art. 374 of the commercial code presented under the heading 'Duties of the Auditors. In this article the auditors have the duty to audit the books and securities of the company annually.

#### **Gap in the Disclosure and Transparency requirements in the Commercial Code of Ethiopia**

Even though there are some similarities between the OECD's and the Commercial code regarding disclosure and transparency principles, there are some principles that are not

found in the commercial code of Ethiopia but found in the OECD's principle. The first is that the commercial code did not require companies to disclose their objectives together with the accounts of the company.

The second principle that is not found in the commercial code is the disclosure of major share ownership and voting rights. This information, if disclosed, is very important to the stakeholders in general and shareholders (investors including existing and potential) in particular to decide on situations that each party needs. It improves the transparency level and the disclosure that is relevant to the decision makers. Because the sale of shares is intensified in Ethiopia companies need to disclose relevant information to the decision makers.

The third one is the disclosure about the disclosure of information about board members, including their qualifications, the selection process. Even though the code stated companies to report the accounts of the company on annual basis, the requirement by companies to report about the board of directors is not required and companies are not doing this currently - as the researcher referred the annual reports of some of the companies.

The fourth gap found in the commercial code is disclosure about the related party transactions of the company and the disclosure of foreseeable risk factors that may hurt the company's future profitability. Similar to the above explanations the disclosure of the related party transactions and the foreseeable risk factors is very important for the

decision makers related to that particular company. This type of information makes the secondary market more efficient in that trader of the company's shares. In the absence of timely and material information the secondary market will not be efficient rather there will be an information asymmetry between the market and the company.

The last but not the least disclosure that is not available in the commercial code is the disclosure of issues regarding employees and other stakeholders: governance structures and policies; channels for disseminating information should provide for equal, timely and cost efficient access to relevant information by users; and analysis or advice by analysts, brokers, rating agencies and others, that is relevant to decisions by investors. To say it repetitively, information like the above are very crucial for making the market efficient so that expanding investment in the country and contributing a lot for the development of the country.

#### **4.3.1.5 The responsibilities of the board**

##### **OECD's Principle:**

*The corporate governance framework should ensure the strategic guidance of the company, the effective monitoring of management by the board, and the board's accountability to the company and the shareholders.*

Part VI (a-f) of the OECD's principle contains the following as the responsibilities of the board; i) board members should act on a fully informed basis, in good faith, with due diligence and care, and in the best interest of the company and the shareholders ii) where board decisions may affect different shareholder groups differently, the board should treat all shareholders fairly iii) the board should apply high ethical standards - it should take into account the interests of stakeholders iv) the board should fulfill certain key functions,

including: reviewing and guiding corporate strategy, monitoring the effectiveness of the company's governance practices and making changes as needed, selecting, compensating, monitoring and, when necessary, replacing key executives and overseeing succession planning, aligning key executive and board remuneration, ensuring a formal & transparent board nomination and election process, monitoring and managing potential conflicts of interest of management, Ensuring the integrity of the corporation's accounting and financial reporting systems, and overseeing the process of disclosure and communications v) the board should be able to exercise objective independent judgment on corporate affairs, and vi) in order to fulfill their responsibilities, board members should have access to accurate, relevant and timely information.

### **Commercial Code of Ethiopia**

The commercial code has the following articles regarding the board of directors of the company. Art. 347(1-4) disclosed that only members of a company may manage the company and a company shall have not less than three nor more than twelve directors who shall form a board of directors in which the number either determined by the memorandum of association or meeting of subscribers. It also presented that bodies corporate may be directors, but the chairman of the board of directors shall be a person.

Regarding the appointment of directors, Art. 350(1-5) disclosed that the first directors may be appointed under the memorandum or articles of association or the meeting of subscribers shall appoint other directors. Subsequent directors shall be appointed by a general meeting and directors may not be appointed for more than three years in which directors are eligible for re-election. In addition, concerning the replacement of the

directors Art. 351(1-5) contented that; where, during a financial year, one or more of the directors have left the board, the surviving directors may appoint other persons to complete the period for which the directors who have left the board were appointed.

Where the surviving directors are less than half of the board, of directors, they may not appoint directors shall convene a general meeting to appoint other directors. Or where there are no surviving directors, the auditors' shall convene a general meeting without delay for directors to be elected.

The removal of directors under Art. 354 of the commercial code disclosed that;

Notwithstanding any provision to the contrary, directors may be removed at any time by a general meeting: provided that a director who was removed without good cause may claim compensation.

This means that shareholders are given the right to remove the directors of the company as they are given the right to elect the directors also.

Art. 353 of the code covered the remuneration of directors. Accordingly, directors may receive a fixed annual remuneration, the amount of which shall be determined by a general meeting and charged against general expenses; or the articles of association may provide that the directors may receive a specified share in the net profits of a financial year.

As per the commercial code Art. 362, directors of the company have the following duties. In addition to their duties under Art. 364, directors shall be responsible for; i) keeping regular records of the management and of meetings; ii) keeping accounts and books; iii)

submitting the accounts to the auditors and an annual report of the company's operations including a financial statement to the meetings; iv) convening meetings as provided in the articles of association; v) convening a general meeting without delay where three quarters of the capital are lost; vi) setting up the reserve funds required by law or the articles of association; and vii) applying to the court where the company stops payments with a view either to a composition with creditors or the winding-up of the company.

Directors of the company, as per Art. 364(1-6), have a liability to the company. These are; i) directors shall be responsible for exercising the duties imposed on them by law, the memorandum or articles of association and resolutions of meetings, with the care due from an agent; ii) directors shall be jointly and severally liable to the company for damage caused by failure to carry out their duties; iii) directors who are jointly and severally liable shall have a general duty to act with due care in relation to the general management; iv) directors shall be jointly and severally liable when they fail to take all steps within their power to prevent or to mitigate acts prejudicial to the company which are within their knowledge; v) directors shall be responsible for showing that they have exercised due care and diligence; and vi) a director shall not be liable where he is not at fault and has caused a minute dissenting from the action which has been taken by the board to be entered forthwith in the directors' minute book and sent to the auditors.

Directors to avoid the conflicts of interest under Art. 409 i) where the interests of a member, acting on his own behalf or on behalf of a third party, conflict with the interests of the company such member may not exercise his right to vote; ii) directors may not

vote on resolutions relating to their duties and liabilities; and iii) Unless authorized by a general meeting, directors may not be partners with joint and several liabilities in rival companies nor compete against the company either on their own behalf or on behalf of third parties.

#### **Gap in the Responsibilities of the Board requirements in the Commercial Code of Ethiopia**

Regarding the board of directors, almost all the principles appeared in the OECD are appeared in the commercial code of Ethiopia. This means that the code has good coverage regarding the board of directors. But the following few principles are not clearly appeared in the code; ensuring a formal and transparent board, overseeing the process of disclosure and communications, and overseeing succession planning. These duties of the board are need to be considered when the code is revised. Concerning this, Petros (2009) stated that the need for changing the commercial code to address newer governance issues in the booming share companies is very pressing. Areas such as board composition need to be considered very seriously.

### 5.1 conclusion

Ethiopian companies can be listed in other African countries' stock exchanges. This is because each sample company meets the listing requirement of at least one of the African stock exchange. In this regard, the maximum number of stock exchanges that are met by a single company is nine and the minimum is one. The average is three stock exchanges per one Sample Company. Thus, Ethiopian companies need to consider foreign listing as an alternative solution until the stock exchange is established in Ethiopia.

There are qualified companies for the establishment of stock exchange in Ethiopia. This is because companies meet the listing requirements of other stock exchanges and companies have a capital, shareholders, profit and public float more than the minimum requirements of African stock exchanges. The only weaknesses founded on Ethiopian companies are the failure of companies in the adoption of IFRS as a reporting standard and the low number of equity shares issued (less than 1 million) which arises due to the high par value of shares (\$58). Therefore, it is the right time to establish a stock exchange in Ethiopia because there are many companies that qualify the requirements for the establishment stock exchange. In this regard Petros (2009) and Negash (2008) indicated that the establishment of stock exchange needs to be urgent since the number of share companies in country is booming.

The researcher, based on the findings of the qualitative listing requirements analysis concluded that the commercial code of Ethiopia did not cover anything about the stock exchange regulation in the country. In addition, the need for changing the commercial code to address newer governance issues in these booming share companies is thus very pressing. Areas such as board composition, minority rights and recourse, and disclosure need to be considered very seriously. This is consistent with the findings of Petros (2009), Negash (2008) and Gebremeskel (2010).

The listing requirements of African stock exchanges particularly the minimum capital requirement is positively correlated with countries' GDP level. The capital requirement and the GDP of countries have a correlation coefficient of  $r=0.88$  which shows a clear positive relationship between the two. In addition, the number of companies that meet the listing requirements sample African exchanges is affected negatively by the number of exchanges listing requirements. The correlation coefficient founded between the two is  $r=-0.58$ . This indicates that the more the number of listing requirements, the less the number of companies that meet the requirements. Finally, the number of exchanges in which each company meet is affected by the companies' number of shareholders and by the securities fully paid up or not. The correlation found is  $r=0.72$ . This indicates that these two factors affect the dependent variable positively.

In summary, based on the characteristic of Ethiopian companies and based on the finding of the descriptive and regression analysis the researcher *designed the following*

*hypothetical quantitative listing requirements for Ethiopian companies* in which it will help companies for the listing preparation either to list abroad or domestic. The designed requirements are;

- i. Minimum capital requirement = 50 million Birr (2.9 million USD)*
- ii. Minimum number of shareholders = 300 shareholders*
- iii. Minimum profit history = 2 years*
- iv. Minimum public float = 25%*

The number and percentage of companies that meet the above requirement are presented as follows.

Out of the sample 17 companies, 12 (70%) meet the capital requirement, 13(76%) meet the shareholders requirement, 14(82%) meet the profit history requirement, and 17(100%) meet the public float requirement. In general, 10(58%) companies meet all the above listing requirements. In other words, we can have 10 listed companies if there was a stock exchange at this time. More companies will meet this requirement after two or three years later because currently there are many share companies that are under establishment.

## 5.2 Recommendation

Based on the findings, the researcher recommended the following:

- Ethiopian companies can get the benefits of listing by listing their shares in the African stock exchanges. By listing in exchanges, companies can improve the value of the company, increase liquidity of shares, and raise additional capital with less cost as well as increase investor base by allowing foreign investors capital;
- Since Ethiopian companies are qualified in the eyes of stock exchange listing requirements, the establishment of stock exchange in Ethiopia is feasible. Thus, the government needs to consider the establishment of stock exchange in Ethiopia. This will help top raise capital, increase liquidity, and increase the valuation of the securities and the firm. In addition, the establishment of stock exchange in the country will help companies by reducing the cost that will be incurred to list abroad.
- The commercial code of Ethiopia, which is more than fifty years old, needed to be revised by including regulation about the stock exchange. The code never touched about the exchanges in its articles. Thus, the regulation about the stock exchanges will facilitate the establishment of stock exchange and the trading of securities afterwards.
- In addition, the commercial code should consider, when revised, about the disclosure level, board composition, minority shareholders protection, and the trading rules. Besides, regarding the minimum capital and shareholders requirement to form a share company need to revise from 50,000 birr (2,941 USD) and 5 shareholders respectively. The increment in these minimum requirements to form a share company will help to

get better qualified share companies for stock exchange. Plus, it will help low and medium income individuals to buy shares for them so that that improves the amount of capital raised and will improve the liquidity of companies' shares.

- Because the researcher designed the hypothetical quantitative listing requirements for Ethiopian companies, companies (both existing and new) can prepare themselves accordingly to meet it when the stock exchange is established in Ethiopia. This will help companies to list their securities as soon as the exchange is established.

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# APPENDIXES

Appendix-I Questionnaires to companies

Addis Ababa University  
Department of Accounting & Finance  
Msc Program  
Abera Bayisasahu

The research is titled as "Can Ethiopian share companies meet the listing requirements of African stock exchanges?" Its purpose is to investigate whether or not Ethiopian share companies can be listed in other African countries stock exchanges by meeting the listing requirements. Identifying the listing characteristics of the Ethiopian share companies for the establishment of a stock exchange is also another purpose of the study.

The findings of the study will be used to aware share companies to be listed in other African stock exchanges so that companies can widen investor basis, improve liquidity, and increase firm value. In addition, the results of the study will be used to check whether or not establishing a stock exchange in Ethiopia is feasible from the availability of companies that can be listed by fulfilling the listing requirements.

Thus, this questionnaire is prepared in order to get the necessary information about the listing characteristics of Ethiopian share companies in accordance with the listing requirements of African countries stock exchanges. The information obtained will be used only for academic purpose. The researcher would like to thank in advance for the time you devoted in filling this questionnaire.

Profile of the company

1. Date of establishment \_\_\_\_\_
2. Type of the company  
 Manufacturing  Merchandizing  Service
3. Specific sector type of the company  
 Bank  Insurance  Agriculture  Petroleum   
Transport

Questionnaires to companies

1. Is the company registered as share company as per Art. 304 of the commercial code of Ethiopia?  
 Yes  No
2. How much is the current Capital of the company? \_\_\_\_\_ (Birr)
3. Are the Securities of the company fully paid up?  
 Yes  No
4. How much are the Equity shares issued by the company? \_\_\_\_\_ (Shares)
5. How much is the Public Float/ how much percentage of the shares of the company are owned by individual shareholders? \_\_\_\_\_%
6. Total number of shareholders of the company currently? \_\_\_\_\_ (shareholders)
7. How much is the par value of one share of the company? \_\_\_\_\_ (Birr)
8. How many years is the operating history of the company? \_\_\_\_\_ (Years)
9. Does the company have auditor's report for all of its operating years?  
 Yes  No
10. Does the company have Unqualified auditor's report for the whole of its operating years?  
 Yes  No
11. How much is the Net asset of the company currently? \_\_\_\_\_ (Years)
12. Does the company Published audited financial statements prepared with IFRS?  
 Yes  No
13. How much is the Profit of the company for the last 3 years? \_\_\_\_\_ (Birr)
14. How much is the Profit of the company for the last 3 of 5 years? \_\_\_\_\_ (Birr)
15. How much is the profit of the company for the last year expressed as the % of paid up capital? \_\_\_\_\_ (Birr)
16. How many years do the company has a Profitable year? \_\_\_\_\_ (Years)
17. What is the reporting standard of the company? \_\_\_\_\_

Appendix-II List of African Stock Exchanges that are taken As a Sample

Exchange	Location	Founded	Listings	Link
West African Regional Stock Exchange				
Bourse Régionale des Valeurs Mobilières*	Abidjan	1998	39	BRVM
Botswana				
Botswana Stock Exchange*	Gaborone	1989	44	BSE
Cape Verde				
Bolsa de Valores de Cabo Verde*	Mindelo			BVC
Egypt				
Egyptian Exchange*	Cairo	1883	378	EGX
Ghana				
Ghana Stock Exchange*	Accra	1990	28	GSE
Kenya				
Nairobi Stock Exchange*	Nairobi	1954	48	NSE
Malawi				
Malawi Stock Exchange*	Blantyre	1995	8	MSE
Namibia				
Namibia Stock Exchange*	Windhoek	1992		NSX
Nigeria				
Nigerian Stock Exchange*	Lagos	1960	223	NSE <sup>III</sup>
South Africa				
JSE Limited*	Johannesburg	1887	472	JSE
Tanzania				
Dar es Salaam Stock Exchange*	Dar es Salaam	1998	11	DSE
Tunisia				
Bourse des Valeurs Mobilières de Tunis*	Tunis	1969	56	BVMT
Uganda				
Uganda Securities Exchange*	Kampala	1997	14	USE
Zambia				
Lusaka Stock Exchange*	Lusaka	1994	16	LuSE
Zimbabwe				
Zimbabwe Stock Exchange*	Harare	1993	81	ZSE

Source: [http://www.enotes.com/topic/List\\_of\\_African\\_stock\\_exchanges](http://www.enotes.com/topic/List_of_African_stock_exchanges)



Appendix-III Number of exchanges that each company meet all the requirements

List of sample companies	Number of exchanges that each company meet all the requirements
Awash International Bank	9
Abyssinia Bank	5
Cooperative Bank of Oromia	3
Oromia International Bank	2
Nib International Bank	5
Lion International Bank	3
Wegagen Bank	5
Dashen Bank	2
Zemen Bank	2
United Bank	4
Lion Insurance	1
Nib Insurance	4
Nile Insurance	2
Awash Insurance	4
United Insurance	3
Global Insurance	2
Yetebaberut Petroleum	1

Appendix-II List of African Stock Exchanges that are taken As a Sample

Exchange	Location	Founded	Listings	Link
West African Regional Stock Exchange				
Bourse Régionale des Valeurs Mobilières*	Abidjan	1998	39	BRVM
Botswana				
Botswana Stock Exchange*	Gaborone	1989	44	BSE
Cape Verde				
Bolsa de Valores de Cabo Verde*	Mindelo			BVC
Egypt				
Egyptian Exchange*	Cairo	1883	378	EGX
Ghana				
Ghana Stock Exchange*	Accra	1990	28	GSE
Kenya				
Nairobi Stock Exchange*	Nairobi	1954	48	NSE
Malawi				
Malawi Stock Exchange*	Blantyre	1995	8	MSE
Namibia				
Namibia Stock Exchange*	Windhoek	1992		NSX
Nigeria				
Nigerian Stock Exchange*	Lagos	1960	223	NSE <sup>II</sup>
South Africa				
JSE Limited*	Johannesburg	1887	472	JSE
Tanzania				
Dar es Salaam Stock Exchange*	Dar es Salaam	1998	11	DSE
Tunisia				
Bourse des Valeurs Mobilières de Tunis*	Tunis	1969	56	BVMT
Uganda				
Uganda Securities Exchange*	Kampala	1997	14	USE
Zambia				
Lusaka Stock Exchange*	Lusaka	1994	16	LuSE
Zimbabwe				
Zimbabwe Stock Exchange*	Harare	1993	81	ZSE

Source: [http://www.enotes.com/topic/List of African stock exchanges](http://www.enotes.com/topic/List_of_African_stock_exchanges)

Appendix-III Number of exchanges that each company meet all the requirements

List of sample companies	Number of exchanges that each company meet all the requirements
Awash International Bank	9
Abyssinia Bank	5
Cooperative Bank of Oromia	3
Oromia International Bank	2
Nib International Bank	5
Lion International Bank	3
Wegagen Bank	5
Dashen Bank	2
Zemen Bank	2
United Bank	4
Lion Insurance	1
Nib Insurance	4
Nile Insurance	2
Awash Insurance	4
United Insurance	3
Global Insurance	2
Yetebaberut Petroleum	1

**Appendix – IV Number of companies that meet the requirements of each exchange**

	Number of companies that meet the requirements of each exchange	Number of listing requirements of each exchange
Botswana SE	1	8
BRVM SE	12	4
Ghana SE	11	4
Kenya SE	4	6
Malawi SE	0	6
Namibia SE	1	4
Cape Verde SE	13	4
Egypt	0	7
Zambia	1	5
Nigeria	0	4
Zimbabwe	2	5
Uganda	0	6
South Africa	0	5
Tanzania	0	7
Tunisia	12	4

**Appendix-V Specific 'meet' and 'do not meet' of each requirements by companies**

Botswana stock exchange

Table 4.1 Analysis of Botswana stock exchange quantitative requirements

S.N	Ethiopian Companies	Botswana stock exchange listing requirements (All are minimum requirements)							
		Capital (US\$)	Equity shares issued	Public Float	No. of shareholders	Initial Price of share (US\$)	F/pts of ( 5 years)	Profit History (years)	Profit of last 3 years (US\$)
1	Awash International Bank	√	√	√	√	√	√	√	
2	Abyssinia Bank	√	x	√	√	√	√	√	
3	Cooperative Bank of Oromia	√	x	√	√	√	√	√	
4	Oromia International Bank	√	√	√	√	√	x	x	
5	Nib International Bank	√	x	√	√	√	√	√	
6	Lion International Bank	√	√	√	√	√	√	x	
7	Wegagen Bank	√	x	√	√	√	√	√	
8	Dashen Bank	√	x	√	x	√	√	√	
9	Zemen Bank	√	x	√	√	√	x	x	
10	United Bank	√	x	√	√	√	√	√	
11	Lion Insurance	√	x	√	√	√	x	√	
12	Nib Insurance	√	x	√	√	√	√	√	
13	Nile Insurance	√	x	√	x	√	√	√	
14	Awash Insurance	√	x	√	√	√	√	√	
15	United Insurance	√	x	√	x	√	√	√	
16	Global Insurance	√	x	√	√	√	√	√	
17	Yetebaberut Petroleum S.C	√	x	√	x	√	√	√	
<b>% of companies that meet specific requirements</b>		<b>100</b>	<b>18</b>	<b>100</b>	<b>76</b>	<b>100</b>	<b>82</b>	<b>82</b>	<b>100</b>

BRVM stock exchange

Table 4.2 Analysis of BRVM stock exchange quantitative requirements

S. N	Ethiopian Companies	BRVM stock exchange listing requirements (All are minimum requirements)			
		Capital (US\$)	Public Float	Profit of last 3 years 3% paid up capital	5 years of certified accounts
1	Awash International Bank	√	√	√	√
2	Abyssinia Bank	√	√	√	√
3	Cooperative Bank of Oromia	√	√	x	√
4	Oromia International Bank	√	√	√	x
5	Nib International Bank	√	√	√	√
6	Lion International Bank	√	√	√	x
7	Wegagen Bank	√	√	√	√
8	Dashen Bank	√	√	√	√
9	Zemen Bank	√	√	√	x
10	United Bank	√	√	√	√
11	Lion Insurance	√	√	√	x
12	Nib Insurance	√	√	√	√
13	Nile Insurance	√	√	√	√
14	Awash Insurance	√	√	√	√
15	United Insurance	√	√	√	√
16	Global Insurance	√	√	√	√
17	Yetebaberut Petroleum S.C	√	√	√	√
<b>% of companies that meet specific requirements</b>		<b>100</b>	<b>100</b>	<b>94</b>	<b>76</b>

Cape Verde stock exchange

Table 4.3 Analysis of Cape Verde stock exchange quantitative requirements

S. N	Ethiopian Companies	Cape Verde stock exchange listing requirements (All are minimum requirements)			
		Capital (US\$)	Equity shares issued (shares)	Public Float	F/s for the last 2 financial years
1	Awash International Bank	√	√	√	√
2	Abyssinia Bank	√	√	√	√
3	Cooperative Bank of Oromia	√	√	√	√
4	Oromia International Bank	√	√	√	√
5	Nib International Bank	√	√	√	√
6	Lion International Bank	√	√	√	√
7	Wegagen Bank	√	√	√	√
8	Dashen Bank	√	√	√	√
9	Zemen Bank	√	√	√	√
10	United Bank	√	√	√	√
11	Lion Insurance	√	x	√	√
12	Nib Insurance	√	√	√	√
13	Nile Insurance	√	√	√	√
14	Awash Insurance	√	√	√	√
15	United Insurance	√	x	√	√
16	Global Insurance	√	x	√	√
17	Yetebaberut Petroleum S.C	√	x	√	√
<b>% of companies that meet specific requirements</b>		<b>100</b>	<b>76</b>	<b>100</b>	<b>100</b>

Egypt stock exchange

Table 4.4 Analysis of Egypt stock exchange quantitative requirements

S. N	Ethiopian Companies	Egypt stock exchange listing requirements (All are minimum requirements)						
		Capital (US\$)	Equity shares issued	Public Float	No. of shareholders	F/s with IFRS (years)	Profit history (years)	Satisfactory profit (US\$)
1	Awash International Bank	√	x	√	√	x	√	√
2	Abyssinia Bank	√	x	√	√	x	√	√
3	Cooperative Bank of Oromia	√	x	√	√	x	x	x
4	Oromia International Bank	√	x	√	√	x	x	√
5	Nib International Bank	√	x	√	√	x	√	√
6	Lion International Bank	√	x	√	√	x	x	√
7	Wegagen Bank	√	x	√	√	x	√	√
8	Dashen Bank	√	x	√	x	x	x	√
9	Zemen Bank	√	x	√	√	x	x	√
10	United Bank	√	x	√	√	x	√	√
11	Lion Insurance	x	x	√	√	x	x	√
12	Nib Insurance	√	x	√	√	x	√	√
13	Nile Insurance	x	x	√	x	x	√	√
14	Awash Insurance	x	x	√	√	x	√	√
15	United Insurance	x	x	√	√	x	√	√
16	Global Insurance	x	x	√	x	x	√	√
17	Yetebaberut Petroleum S.C	x	x	√	x	x	x	√
% of companies that meet specific requirements		64	0	100	76	0	70	94

Ghana stock exchange

Table 4.5 Analysis of Ghana stock exchange quantitative requirements

S. N	Ethiopian Companies	Ghana stock exchange listing requirements (All are minimum requirements)			
		Capital (US\$)	Public Float	No. of shareholders	Profit history (years)
1	Awash International Bank	√	√	√	√
2	Abyssinia Bank	√	√	√	√
3	Cooperative Bank of Oromia	√	√	√	√
4	Oromia International Bank	√	√	√	x
5	Nib International Bank	√	√	√	√
6	Lion International Bank	√	√	√	x
7	Wegagen Bank	√	√	√	√
8	Dashen Bank	√	√	x	√
9	Zemen Bank	√	√	√	x
10	United Bank	√	√	√	√
11	Lion Insurance	√	√	√	√
12	Nib Insurance	√	√	√	√
13	Nile Insurance	√	√	x	√
14	Awash Insurance	√	√	√	√
15	United Insurance	√	√	√	√
16	Global Insurance	√	√	√	√
17	Yetebaberut Petroleum	√	√	x	√
% of companies that meet specific requirements		100	100	82	82

Kenya stock exchange

Table 4.6 Analysis of Kenya stock exchange quantitative requirements

S. N	Ethiopian Companies	Kenya stock exchange listing requirements (All are minimum requirements)					
		Capital (US\$)	Securities fully paid up	Public Float	No. of shareholders	Net assets (US\$)	Positive profits last 3 of 5 years
1	Awash International Bank	√	√	√	√	√	√
2	Abyssinia Bank	√	√	√	√	√	√
3	Cooperative Bank of Oromia	√	x	√	√	√	√
4	Oromia International Bank	√	x	√	√	√	x
5	Nib International Bank	√	√	√	√	√	√
6	Lion International Bank	√	x	√	√	√	x
7	Wegagen Bank	√	√	√	√	√	√
8	Dashen Bank	√	√	√	x	√	√
9	Zemen Bank	√	x	√	√	√	x
10	United Bank	√	√	√	x	√	√
11	Lion Insurance	√	x	√	x	x	x
12	Nib Insurance	√	√	√	x	√	√
13	Nile Insurance	√	√	√	x	√	√
14	Awash Insurance	√	√	√	x	√	√
15	United Insurance	√	√	√	x	√	√
16	Global Insurance	√	√	√	x	√	√
17	Yetebaberut Petroleum S.C	√	x	√	x	√	√
% of companies that meet specific requirements		100	65	100	47	94	82

Malawi stock exchange

Table 4.7 Analysis of Malawi stock exchange quantitative requirements

S. N	Ethiopian Companies	Malawi stock exchange listing requirements (All are minimum requirements)					
		Capital (US\$)	Equity shares issued	Public Float	No. of shareholders	Initial issue price (US\$)	Profit history (years)
1	Awash International Bank	√	x	√	√	√	√
2	Abyssinia Bank	√	x	√	√	√	√
3	Cooperative Bank of Oromia	√	x	√	√	√	√
4	Oromia International Bank	√	x	√	√	√	x
5	Nib International Bank	√	x	√	√	√	√
6	Lion International Bank	√	x	√	√	√	x
7	Wegagen Bank	√	x	√	√	√	√
8	Dashen Bank	√	x	√	x	√	√
9	Zemen Bank	√	x	√	√	√	x
10	United Bank	√	x	√	√	√	√
11	Lion Insurance	x	x	√	√	√	√
12	Nib Insurance	√	x	√	√	√	√
13	Nile Insurance	√	x	√	x	√	√
14	Awash Insurance	√	x	√	√	√	√
15	United Insurance	√	x	√	x	√	√
16	Global Insurance	x	x	√	√	√	√
17	Yetebaberut Petroleum S.C	√	x	√	x	√	√
% of companies that meet specific requirements		88	0	100	76	100	82

Namibia stock exchange

Table 4.8 Analysis of Namibia stock exchange quantitative requirements

S. N	Ethiopian Companies	Namibia stock exchange listing requirements (All are minimum requirements)			
		Capital (US\$)	Equity shares issued	Profit History (Years)	Unqualified auditor's report last (3 years)
1	Awash International Bank	√	√	√	√
2	Abyssinia Bank	√	x	√	√
3	Cooperative Bank of Oromia	√	x	√	√
4	Oromia International Bank	√	√	x	√
5	Nib International Bank	√	x	√	√
6	Lion International Bank	√	√	x	√
7	Wegagen Bank	√	x	√	√
8	Dashen Bank	√	x	√	√
9	Zemen Bank	√	x	x	√
10	United Bank	√	x	√	√
11	Lion Insurance	√	x	√	√
12	Nib Insurance	√	x	√	√
13	Nile Insurance	√	x	√	√
14	Awash Insurance	√	x	√	√
15	United Insurance	√	x	√	√
16	Global Insurance	√	x	√	√
17	Yetebaberut Petroleum S.C	√	x	√	√
<b>% of companies that meet specific requirements</b>		<b>100</b>	<b>17</b>	<b>80</b>	<b>100</b>

Nigeria stock exchange

Table 4.9 Analysis of Nigeria stock exchange quantitative requirements

S. N	Ethiopian Companies	Nigeria stock exchange listing requirements (All are minimum requirements)			
		Securities fully paid up	Public Float	No. of shareholders	F/s with IFRS (5 years)
1	Awash International Bank	√	√	√	x
2	Abyssinia Bank	√	√	√	x
3	Cooperative Bank of Oromia	x	√	√	x
4	Oromia International Bank	x	√	√	x
5	Nib International Bank	√	√	√	x
6	Lion International Bank	x	√	√	x
7	Wegagen Bank	√	√	√	x
8	Dashen Bank	√	√	x	x
9	Zemen Bank	x	√	√	x
10	United Bank	√	√	√	x
11	Lion Insurance	x	√	√	x
12	Nib Insurance	√	√	x	x
13	Nile Insurance	√	√	√	x
14	Awash Insurance	√	√	√	x
15	United Insurance	√	√	x	x
16	Global Insurance	√	√	√	x
17	Yetebaberut Petroleum S.C	x	√	x	x
<b>% of companies that meet specific requirements</b>		<b>64</b>	<b>100</b>	<b>76</b>	<b>0</b>

South Africa stock

Table 4.10 Analysis of South Africa stock exchange quantitative requirements

S. N	Ethiopian Companies	South Africa stock exchange listing requirements (All are minimum requirements)				
		Capital (US\$)	Public Float	No. of Shareholders	Profit of last 3 years (US\$)	Reporting Standards
1	Awash International Bank	√	√	√	√	x
2	Abyssinia Bank	√	√	√	√	x
3	Cooperative Bank of Oromia	√	√	√	x	x
4	Oromia International Bank	√	√	√	x	x
5	Nib International Bank	√	√	√	√	x
6	Lion International Bank	√	√	√	√	x
7	Wegagen Bank	√	√	√	√	x
8	Dashen Bank	√	√	x	√	x
9	Zemen Bank	√	√	√	√	x
10	United Bank	√	√	√	√	x
11	Lion Insurance	x	√	√	x	x
12	Nib Insurance	x	√	√	√	x
13	Nile Insurance	x	√	x	x	x
14	Awash Insurance	x	√	√	√	x
15	United Insurance	x	√	x	√	x
16	Global Insurance	x	√	√	x	x
17	Yetebaberut Petroleum S.C	x	√	x	x	x
<b>% of companies that meet specific requirements</b>		<b>58</b>	<b>100</b>	<b>76</b>	<b>64</b>	<b>0</b>

Tanzania stock exchange

Table 4.11 Analysis of Tanzania stock exchange quantitative requirements

S. N	Ethiopian Companies	Tanzania stock exchange listing requirements (All are minimum requirements)						
		Capital (US\$)	Public Float	No. of shareholders	Operating history (years)	Net Tangible Assets (US\$)	Reporting standards	Profitability 2 of last 5 years
1	Awash International Bank	√	√	√	√	√	x	√
2	Abyssinia Bank	√	√	√	√	√	x	√
3	Cooperative Bank of Oromia	√	√	√	√	√	x	√
4	Oromia International Bank	√	√	√	√	√	x	x
5	Nib International Bank	√	√	√	√	√	x	√
6	Lion International Bank	√	√	√	√	√	x	√
7	Wegagen Bank	√	√	√	√	√	x	√
8	Dashen Bank	√	√	x	√	√	x	√
9	Zemen Bank	√	√	√	√	√	x	√
10	United Bank	√	√	x	√	√	x	√
11	Lion Insurance	√	√	x	√	√	x	√
12	Nib Insurance	√	√	x	√	√	x	√
13	Nile Insurance	√	√	x	√	√	x	√
14	Awash Insurance	√	√	x	√	√	x	√
15	United Insurance	√	√	x	√	√	x	√
16	Global Insurance	√	√	x	√	√	x	√
17	Yetebaberut Petroleum S.C	√	√	x	√	√	x	√
<b>% of companies that meet specific requirements</b>		<b>100</b>	<b>100</b>	<b>47</b>	<b>100</b>	<b>100</b>	<b>0</b>	<b>94</b>

Tunisia stock exchange

Table 4.12 Analysis of Tunisia stock exchange quantitative requirements

S. N	Ethiopian Companies	Tunisia stock exchange listing requirements (All are minimum requirements)			
		Capital (US\$)	Public Float	No. of shareholders	Certified F/Ss for 2 years
1	Awash International Bank	√	√	√	√
2	Abyssinia Bank	√	√	√	√
3	Cooperative Bank of Oromia	√	√	√	√
4	Oromia International Bank	√	√	√	√
5	Nib International Bank	√	√	√	√
6	Lion International Bank	√	√	√	√
7	Wegagen Bank	√	√	√	√
8	Dashen Bank	√	√	x	√
9	Zemen Bank	√	√	√	√
10	United Bank	√	√	√	√
11	Lion Insurance	x	√	√	√
12	Nib Insurance	√	√	√	√
13	Nile Insurance	√	√	x	√
14	Awash Insurance	√	√	√	√
15	United Insurance	√	√	√	√
16	Global Insurance	x	√	x	√
17	Yetebaberut Petroleum S.C	x	√	x	√
<b>% of companies that meet specific requirements</b>		<b>82</b>	<b>100</b>	<b>76</b>	<b>100</b>

Uganda stock exchange

Table 4.13 Analysis of Uganda stock exchange quantitative requirements

S. N	Ethiopian Companies	Uganda stock exchange listing requirements (All are minimum requirements)					
		Capital (US\$)	Securities fully paid up	Public Float	No. of shareholders	Net assets (US\$)	F/S with IFRS (5 years)
1	Awash International Bank	√	√	√	√	√	x
2	Abyssinia Bank	√	√	√	√	√	x
3	Cooperative Bank of Oromia	√	x	√	√	√	x
4	Oromia International Bank	√	x	√	√	√	x
5	Nib International Bank	√	√	√	√	√	x
6	Lion International Bank	√	x	√	√	√	x
7	Wegagen Bank	√	√	√	√	√	x
8	Dashen Bank	√	√	√	x	√	x
9	Zemen Bank	√	x	√	√	√	x
10	United Bank	√	√	√	x	√	x
11	Lion Insurance	√	x	√	x	√	x
12	Nib Insurance	√	√	√	x	√	x
13	Nile Insurance	√	√	√	x	√	x
14	Awash Insurance	√	√	√	x	√	x
15	United Insurance	√	√	√	x	√	x
16	Global Insurance	√	√	√	x	√	x
17	Yetebaberut Petroleum S.C	√	x	√	x	√	x
<b>% of companies that meet specific requirements</b>		<b>100</b>	<b>64</b>	<b>100</b>	<b>47</b>	<b>100</b>	<b>0</b>

**Zambia stock exchange**

Table 4.14 Analysis of Zambia stock exchange quantitative requirements

S. Ethiopian Companies  
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**Zambia stock exchange** listing requirements  
(All are minimum requirements)

	Capital (US\$)	Equity shares issued	Public Float	No. of shareholders	Profit history (years)
1	Awash International Bank	√	√	√	√
2	Abyssinia Bank	√	x	√	√
3	Cooperative Bank of Oromia	√	x	√	√
4	Oromia International Bank	√	√	√	x
5	Nib International Bank	√	x	√	√
6	Lion International Bank	√	√	√	x
7	Wegagen Bank	√	x	√	√
8	Dashen Bank	√	x	√	x
9	Zemen Bank	√	x	√	x
10	United Bank	√	x	√	√
11	Lion Insurance	√	x	√	√
12	Nib Insurance	√	x	√	√
13	Nile Insurance	√	x	√	x
14	Awash Insurance	√	x	√	√
15	United Insurance	√	x	√	x
16	Global Insurance	√	x	√	√
17	Yetebaberut Petroleum S.C	√	x	√	x
<b>% of companies that meet specific requirements</b>	<b>100</b>	<b>17</b>	<b>100</b>	<b>76</b>	<b>88</b>

**Zimbabwe stock exchange**

Table 4.15 Analysis of Zimbabwe stock exchange quantitative requirements

S. N	Ethiopian Companies	Zimbabwe stock exchange listing requirements (All are minimum requirements)				
		Capital (US\$)	Equity shares issued	Public Float	No. of shareholders	Auditors report for last 5 years
1	Awash International Bank	√	√	√	√	√
2	Abyssinia Bank	√	x	√	√	√
3	Cooperative Bank of Oromia	√	x	√	√	√
4	Oromia International Bank	√	√	√	√	x
5	Nib International Bank	√	x	√	√	√
6	Lion International Bank	√	√	√	√	√
7	Wegagen Bank	√	x	√	√	√
8	Dashen Bank	√	x	√	x	√
9	Zemen Bank	√	x	√	√	x
10	United Bank	√	x	√	√	√
11	Lion Insurance	√	x	√	√	x
12	Nib Insurance	√	x	√	√	√
13	Nile Insurance	√	x	√	x	√
14	Awash Insurance	√	x	√	√	√
15	United Insurance	√	x	√	x	√
16	Global Insurance	√	x	√	√	√
17	Yetebaberut Petroleum S.C	√	x	√	x	√
<b>% of companies that meet specific requirements</b>	<b>100</b>	<b>17</b>	<b>100</b>	<b>76</b>	<b>82</b>	

## Statement of Declaration

I, Abera Bayisasahu Nade, have carried out independently a research work on “Can Ethiopian companies meet the listing requirements of African stock exchanges?” in partial fulfillment of the requirement of the M.sc program in Accounting and Finance with the guidance and support of the research advisor.

This study is my own work that has not been submitted for any degree or diploma program in this or any other institution.



Abera Bayisasahu Nade

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