FACTORS LEADING TO THE DEVELOPMENT OF STOCK MARKETS-

"THE CASE OF THE FIJI ISLANDS- AN EMERGING STOCK MARKET"

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A thesis submitted in partial fulfillment of the requirements for the degree of Master of Arts

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October 2006

Declaration of Originality

I, Rajni Mala, hereby declare that this thesis is an original piece of work and has been solely compiled by me. Where other sources have been used, these have been duly acknowledged and referenced.

Rajni Mala

Acknowledgement

The success of this piece of work is based on a number of people's guidance and assistance. Firstly, I would like to express my sincere appreciation to Professor Michael White. Professor White has not only been my supervisor but he has also provided continuous support and has been guiding me throughout the duration of my research, with a lot of patience. He has also provided very timely and constructive insights to my work and also suggested useful readings for the research. In addition to this, I would also like to thank the examiners who have done a great work of finding the weaknesses in this write up and whose comments have given more strength to this piece of work. Furthermore, the past CEO of the South Pacific Stock Exchange, Mr. Sanjay Sharma, was extremely helpful in providing all the information that I needed from the stock market without any hesitation. Ms Barbara Hau'ofa's timely editorial comments and help are also most appreciated.

Many thanks are also extended to the respondents of the questionnaire and also to those respondents who agreed to be interviewed, as without their contribution the research would not have been completed. My special gratitude goes to Mr Pradeep Lal, the Chief Financial Officer of Vodafone Fiji, who gave a very detailed interview related to the questionnaire and also assisted me with additional references required for the thesis. In addition to this, I would also like to thank Mr.Iqbal Jannif of Caines Jannif Ltd for his detailed interview and also for providing some background information in the establishment of the Fiji's stock exchange. The late Mrs. Loraini Korodrau, the secretary for School of Accounting and Finance, and Mr. John Sami have also been very supportive in providing the printing, photocopying and binding facilities to me.

I would also like to thank my friend Ms Fozia Nisha for providing me with words of encouragement and help; and I am greatly indebted to my family for providing me their unconditional support during the period of my research and write-up.

Finally, I bear the full responsibility for any weaknesses or shortcomings remaining in this dissertation.

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Explanations of Terms and Abbreviations used in this Thesis

APP	Atlantic Pacific Packaging Company Limited
ATH	Amalgamated Telecom Holdings
BPT	South Seas Company Limited
CBF	Carlton Brewery Fiji Limited
CFM	Communications Fiji Limited
CMA	Central Monetary Authority
CMDA	Capital Markets Development Authority
FDB	Fiji Development Bank
FDI	Foreign Direct Investment
FGP	Foster Group Pacific Limited
FHL	Fijian Holdings Limited
FMF	Flour Mills of Fiji Limited
FNPF	Fiji National Provident Fund
FSC	Fiji Sugar Corporation Limited
FTV	Fiji Television Limited
GSE	Ghana Stock Exchange
IFC	International Finance Corporations
IPO	Initial Public Offering
KGF	Kontiki Growth Fund
NSE	Nairobi Stock Exchange
OTC	Over-The-Counter
PGI	Pacific Green Fiji Limited
RBG	R.B. Group Limited
RCF	Rice Company of Fiji Limited
SEM	Stock Exchange of Mauritius
SPD	South Pacific Distilleries
SPSE	South Pacific Stock Exchange
SSE	Suva Stock Exchange
VBL	Vishal Bharteeya Company Limited

Abstract

The stock market is an important element of development in the emerging economies as stock exchanges facilitate efficient resource mobilization and allocation to the corporate sectors in the economy. To shed light on how these emerging economies can develop their stock markets, it is important to see how other stock markets around the world developed have developed, what factors have driven their general development and which can be applied to develop the emerging economy.

This study focused on those factors that have been responsible for developing the stock markets around the world. The findings showed that factors pertinent to stock market development include attraction of institutional investors, increased privatization, reduction of political risks, availability of the pension funds, availability of the timely information, improvement in liquidity and an expansion in listing on the stock market.

This thesis provides a detailed discussion of Fiji's stock market and explores the trends in the performance of Fiji's stock market, which is the South Pacific Stock Exchange (SPSE). These market trends are considered in terms of stock market size, volume and value traded, market capitalization, market liquidity, market concentration and the number of listings. From the trends it can be said that the exchange has experienced lacklustre performance over its entire existence.

Listing on the stock exchange is found to be the most common and useful indicator for stock market development and this is given an in-depth consideration in this work. This study was basically designed to find answers to questions like: what were the reasons for companies in Fiji to list, what were some of their initial reservations for listing, what are some of the motivational factors that may lead potential companies in Fiji to list and what are the current reservations in listing for these potential companies? The results indicate that the majority of the companies' in Fiji are concerned with the risks associated with additional disclosures and dilution of business controls and ownership when the companies go public: these factors are seen as what really inhibits listing. On the other hand, to attract listing, factors that are closely related to enhancing the company's reputation are given the highest degree of importance. In addition to this, the study finds that financing is not really a reason for companies in Fiji to list or seek listing. Other sources of financing appear to be better channels for the majority of companies.

Finally, the study shows that significant development has been seen in Fiji's stock market in terms of its market capitalization and volumes of trade. However, a number of challenges currently face

the SPSE. If the stock market is to be enhanced as a vehicle for mobilizing capital for the development in Fiji then there is a real need for a change in attitudes by all the market players.

Chapter One

Introduction

1.1 Introduction

The financial system of any economy is seen to be divided between the financial intermediaries (banks, insurance companies and pension funds) and the markets (bond and stock markets). In promoting economic growth, a key factor is seen to be a healthy development of a nation's financial sector, which in turn improves the private sector's access to services such as bank credit, equity capital, payments and risk management services (World Bank, 2002). Studies have shown that economic growth creates a demand for various types of financial services to which the financial system responds by facilitating the flow of the medium of exchange such that it can be held by those who can acquire resources to use productively. Numerous studies have dealt with different aspects of this relationship at both theoretical and empirical levels see for example, King and Levine (1993a, 1993b), Atje and Jovanovic (1993), Demirguc-Kunt and Maksimovich (1996), Levine and Zervos (1998), Rajan and Zingales (1998),Neusser and Kugler (1998), Rousseau and Wachtel (2000), Carlin and Mayer (1999) and Beck, Levine and Loayza (2000). All these studies point to a positive impact of financial intermediation on per capita growth of the economies.

To facilitate this demand in the financial system, the stock markets have grown considerably in the developed and developing countries over the last two decades. These stock markets fulfil a number of functions. Firstly, the market acts as a means of raising capital for companies. This is referred to as its primary market function and is accomplished either in the initial floatation (formation of a public company) or by an existing company issuing new shares. Secondly, a more important role is the secondary market function, which is the transfer of previously issued shares. This function enables shareholders to adjust their portfolios by increasing the ownership of shares in certain companies or liquidating shares in other companies. An efficient and liquid secondary market is vital to encourage the primary market role. Moreover, the stock market is an independent financial organization comprising many individuals seeking to obtain the best return at the lowest risk. The share price is seen as an objective measure of investors' assessments and expectations, hence acting as an external discipline over the investment behaviour and management performance of a company. Finally, stock markets efficiently spread the risk of long-term investment projects by channeling the savings of individual investors into different companies.

For some developing economies, the stock exchanges are relatively large. The market capitalization of exchanges in Malaysia and Jordan represents a higher share of GDP than in France or Germany, while India's stock exchange lists more companies than the stock markets of all other countries except the USA. But on the other hand, for many other developing countries, the equity markets until the mid-1980s generally suffered from the classical defects of bank dominated economies, that is, shortage of equity capital, lack of liquidity, absence of foreign institutional investors, and lack of investor confidence in the stock market (Agarwal 1997). According to International Finance Corporation's (IFC) (1999), ironically, in many countries where there are investment opportunities, there is inadequate access to finance, particularly risk capital, and this underlines the need to accelerate the development of local capital markets or/and other elements of the finance market in developing countries. In addition to this, Engberg (1975) also recognized the need for the development of the capital markets, especially the stock market, for the less developed economies. He argued that stock markets could significantly raise the level of domestic savings and contribute to a more efficient allocation of such savings among the competing use of the savings. Moreover the work of Demirguc-Kunt and Levine (1996), Singh(a) (1997) and Levine and Zervos (1998) finds that stock market development plays an important role in predicating future economic growth in situations where the stock markets are active. The arguments of Demirguc-Kunt and Levine (1996) indicate that economies without well-functioning stock markets may suffer from three types of imperfections: first, opportunities for risk diversification are limited for investors and entrepreneurs; second, firms are unable to optimally structure their financing packages; and third, countries without well functioning markets lack information about the prospects of companies whose shares are traded, thereby restricting the promotion of investment and its efficiency.

Considering the contributions of developed stock markets to their economies has led researchers to focus on how stock markets can be developed in the developing economies so that these economies also enjoy the benefits of stock markets. Consequently, this study focuses on how stock markets are developed, i.e. the factors that are conducive to the development of the stock markets. It attempts to identify how many of these factors are at play in a recently established stock market in a small developing Pacific nation, the Fiji Islands. Because countries differ socially, culturally and economically, that the same factors are responsible for stock market development in all countries.

According to Edey (1996) the financial sectors of many developing countries began to evolve after deregulation. These countries embarked upon reforming and deepening financial systems, through the expansion of capital markets in order to improve their ability to mobilize resources and allocate them efficiently to the most productive sectors of the economy. Following this deregulation, the capital flows to emerging economies rose ten-fold from 1989 to 1995, which is an exceptional growth in the capital flow to the developing countries (IFC, 1999).

Fiji, a former British Colony, gained independence in 1970. In the 1980s the government of Fiji decided to focus on the development of the capital markets as a component of its economic policies. The financial sector deregulation in Fiji began in the early 1980s and gained attention in the various economic plans. Development of the financial system focused particularly on:

- strengthening and deepening of the financial structure
- promotion of a competitive financial environment
- introduction of new instruments and orientation of public debt policy towards a more flexible and market determined regime.

To achieve these objectives the government of the day formulated various strategies. The Minister for Economic Development stated that “the government has to tackle the most serious problems of mobilizing domestic savings to finance the nation’s investment program if it is to attain the desired goals” (Toganivalu, 1978). This statement indicated a need for a mechanism that can be an intermediary in the savings and investment process. So the development of the stock market was an integral element of the government’s overall strategy in order to utilize the private sector as the engine for economic growth. Fiji’s stock exchange, the South Pacific Stock Exchange (SPSE), which was formerly known as the Suva Stock Exchange (SSE), had existed since 1979, but it initially operated only as a trading post. The commencement of formal call market trading from 1st July 1996 at the SSE and the establishment of the Capital Markets Development Authority (CMDA) in 1997 have added momentum to the development of the equity market. In December 2000 Fiji's stock market name was changed from SSE to SPSE to allow for listing and investing opportunities in other jurisdictions in the South Pacific. Currently there are 16 companies listed on the Exchange but to date there are no listings from outside Fiji. The market capitalization up to the end of year 2005 is approximately $FD1024 million compared with 10 companies with a market capitalization of $243 million in 2000[1]. The number of trading sessions from 2003 has increased from 3 to 5 per week. The government has also assisted in the development of the market by exempting tax on dividends for listed companies and has commenced the float of shares in government owned enterprises.

As in other developing countries, Fiji's stock market is also playing a crucial role in the economy. It encourages companies to make initial public offerings IPOs and also provides a regulated market for the trading of existing shares between investors. Its basic function is a secondary market role facilitating the exchange of previously issued shares. It can be seen as an emerging stock market because there is an increase in the market capitalization, stock market size and number of companies listed from the period 1996 to 2005. Thus the market is in the development phase. But at the same time the SPSE is said to be saddled with low liquidity over the entire period of 1996-2005, which is evident on viewing the inactive market and the fact that Initial Public Offerings (IPOs) have not sustained the increase that was observed between 2000 and 2001. New listings are seen as a very crucial factor for stock market development and currently the number of companies listed in Fiji and the level of trading activity are not high in comparison with other developing economies. Thus, the major emphasis of this thesis is on the listing decisions of public companies and potential public companies. Research on this issue becomes important so that it can provide some insights as to how else a more diversified, competitive and vibrant stock market can be developed for Fiji. This will assist to raise investor confidence, improve resource mobilization and thus lead to economic growth. The justification of this thesis, its aims and objectives are outlined below.

1.2 Justification and motivation for this study

Proponents of stock market research stress that well functioning stock markets can spur growth through a number of channels. For instance, some studies show that large and liquid

[1] Amalgamated Telecom Holdings (ATH) was listed on the SPSE in April 2002, being the government's first privatization to the public. This had a

stock markets can facilitate pooling of savings and channel capital to investment projects (Greenwood and Smith, 1997). Some studies observe that compared to banks, equity markets are a trivial source of funds for corporate investment (Mayer, 1990; Corbett and Jenkins, 1994). The study by Agarwal in 1997 showed that stock markets serve as a cheaper source of finance compared to banks' complex rules for debt financing and high interest rates. These studies raise questions on the emphasis countries need to place on developing their own stock exchange as the means to assure efficient resource mobilization and allocation for their corporate sectors.

As such, it becomes important to consider how stock markets have developed, i.e. how they have transformed from emerging to developed markets and what are the factors that have driven their general development; this is what this study attempts to answer. The thesis is expected to provide further understanding of the determinants of the stock market development. It uses one of the emerging markets in the South Pacific, the Fiji stock market, as a case to examine how many of these factors are affecting its development and secondly, the study reports on a field survey on companies' listing decisions in Fiji. Listing is a crucial factor for stock market development and thus research into the reasons as to why there were only two new listings over 2001 to 2005 is clearly warranted.

A further motivation to undertake a field survey on the listing decision is to determine the benefits that potential listers are looking for from a listing on the SPSE. Feedback from potential listers can help the SPSE in putting measures or incentives in place quickly to encourage companies to get listed. Also amongst other things the research will show why the listed companies undertake an initial public offering and see if the listed companies have unrealistic or realistic expectations of listing.

Finally, this research will contribute to the large body of existing literature on the development of emerging stock markets by studying Fiji's stock market, the only major stock market in the Pacific Islands. It thus addresses a lacuna that exists in the literature regarding the South Pacific Stock Exchange.

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substantial effect on the number of shares traded and market capitalization.

1.3 Aims and Objectives

Aims

The aims of this research are to study how the Fiji stock market has developed from the time it started its formal operations to the present, i.e. from 1996 to 2005 considering the factors that have led to the development of other emerging stock markets, and to look at the listing decisions of the listed and potential to list companies. The analysis of the factors on the listing decisions can help to draw attention to some of the current challenges faced by the SPSE and assist the SPSE in quickly putting in place some more procedures or incentives for listing, bringing some more development to Fiji's stock market.

Objectives

- To identify the factors leading to the development of the secondary stock market in Fiji using a case study of Fiji based firms
- To study the development of Fiji's stock market from the time it was formally set up to the year 2005.
- To determine the costs and benefits of listing.
- To identify reasons why companies choose to list or choose not to list on the stock exchange.
- To draw attention to the current challenges faced by the SPSE.
- To provide some possible recommendations for overcoming the current challenges faced by the SPSE.

1.4 Summary and Organization of the Thesis

This chapter has provided a brief description of Fiji's stock market and it also has made reference to the importance of stock market development to economic growth. It has introduced the main research question and has laid down the aims and objectives of this study.

The next chapter provides an in-depth discussion of the establishment of Fiji's stock exchange. It also shows an analysis of the market development and trends in the market by looking at the common factors that show stock market development.

Chapter three addresses the methodological issues and the associated research methods for undertaking this research. Chapter four outlines the existing literature on stock market development. Chapters five and six are used to report and analyze the findings of the empirical research. They provide discussions about why companies choose whether or not to go public and if the listed companies are satisfied after being listed. The concluding chapter will highlight the current challenges faced by SPSE and CMDA and will also provide some suggestions to SPSE and CMDA that may help in the development of Fiji's stock market and increase its visibility. It will also discuss some implications for policies.

Chapter Two

Stock Market Development

2.1 A General Overview of Stock Market Development

Financial markets and especially stock markets have grown considerably in developed and developing countries over the last two decades. Better fundamentals (higher economic growth, more macro stability), structural reforms (notably privatization of state owned enterprises), and specific policy changes (notably domestic financial reform and capital account liberalization) have facilitated growth, Claessens et al. (2001). A study by La Porta et al. (1997) compares external finance across 49 countries based on English, French, German or Scandinavian law and show that countries with better legal protection have more external finance in the form of both higher valued and broader capital markets. La Porta et al. (1998) also show that the differences in legal protection of investors explain why Companies are financed and owned so differently in different countries. In addition, Pardy (1992) says the implication is that the development of stock markets depends not only on the institutional set up, but also on the macroeconomic and fiscal environment. For example, Sung (1992) attributes the remarkable performance of some emerging markets to the positive response of foreign and local investors to economic reforms Furthermore, Kawakatsu and Morey (1999) attribute growth of the emerging markets to institutional changes, in particular changes in laws allowing foreigners to invest legally in the stock markets.

The factors of financial sector development have become a much-researched area lately. King and Levine (1993), La Porta et al. (1998), Shleifer, and Vishny (1997), Rajan and Zingales (1998), Demirguc-Kunt, Levine (1996) and Maksimovic and Pichler (2001), Henry (2000), Bekaert et al.(2001), Demirguc-Kunt and Levine (2001) and a number of others have analyzed the legal foundations of financial markets. They have also studied the relation of financial market development to macroeconomic variables, financial reform, and other country factors, and the relations among the development of the various parts of a financial system. The general finding is that financial market tend to develop as per capita income grows and financial reform progresses. Stock market development also appears to complement the development of other parts of the financial system and be complementary to others forms of finance in affecting growth, both at the aggregate level as well at the individual firm level.

Emerging markets can develop their stock exchanges if there is an increase in the number of listings, by having a market regulator, by removing controls for foreign investors, by enhancing the market liquidity and by improving the trading system to enhance transparency in the price discovery process and also to strengthen investors' protection to boost investors confidence in committing their resources to the stock market. One of the factors driving the revitalization process of the emerging stock market is the growing need for international diversification of risk. Diversification and market integration are perceived to improve resource allocation thus promoting economic efficiency, (Aitken, 1998; Richards, 1996; and Kim and Singal, 2000). Consequently with financial liberalization, capital controls were relaxed and this saw an upsurge of capital flow to the emerging markets in the early 1990s.The capital flow rose from about $40 – 50 billion per annum in the late 1980s to a peak of nearly 300 billion in 1996. As highlighted by Stultz (1997) and empirically shown by Bekaert and Harvey (1995) and Henry (2000a), the financial capital flows from industrial to developing countries are to the benefit of both sides. Investors from industrial countries are expected to gain as they earn higher returns to their capital in the emerging markets. Emerging market economies, on the other hand, are also expected to gain, because the availability of these funds will reduce the cost of capital, enhance investment in longer–term projects and increase the long-run growth potential of the country. Bekaert and Harvey(1995) showed that with the integration of a market to the world financial system, the cost of capital is no longer related to the variance of the stock index return only. It is related to the covariance of local stock market return with world market returns, which is expected to be lower than the variance of the local stock returns.

In addition to the direct effects, increased equity flows to emerging markets may have indirect effects on the size and liquidity of emerging markets as well. These effects can be instrumental through several channels. First, as foreign investors become actively involved in the domestic stock market, stock prices would increase, encouraging domestic companies to raise funds through initial public offerings in the stock market. Consequently, the size of the stock market will increase both in terms of total market value of stocks and in terms of the number of listed companies in the stock market.

But on the other hand, consider the role of the British Empire in facilitating capital export to the less developed world (Ferguson, 2004). Although some measures of international integration seem to suggest that the 1990s saw greater cross-border capital flows than the 1980s, in reality much of today's overseas investment goes on within the developed world. In 1996 only 28% of foreign direct investment went to developing countries, whereas in 1913 the proportion was 63%. Another stricter measure shows that in 1997 only around 5 % of the world stock capital were invested in countries with per capita incomes of 20% or less of US per capita GDP. In 1913 the figure was 25 per cent. A plausible hypothesis is that empire and particularly the British Empire encouraged investors to put their money in developing countries. The reasoning here is straightforward. Investing in such economies is risky. They tend to be far away and more prone to economic, social and political crises. But the extension of the empire into the less developed world had the effect of reducing such risks, because directly or indirectly, the imperial power could impose some form or rules.

This shows that capital movement in 1990s to developing countries is not necessarily a unique feature leading to the emerging stock market development but is a contributing factor towards emerging stock market development, together with high level liquidity, increased privatization, increased number of institutional investors, pension funds availability and new listings in combination with the role of the law and political practices. Developing countries have become fewer coups prone and the post-independence policy of nationalizing foreign investments has also gone out of fashion.

There was a tremendous expansion in the number of developing countries with stock markets after the end of the Cold War as these countries realized the benefits of having stock markets in their economies. Before 1989, the largest developing country equity markets had been in East Asia, South Africa and a few Latin American countries. During the 1990s stock markets have appeared in Eastern Europe, the former Soviet Union and China, while the markets which existed before 1989 have experienced dramatic growth. In 1998, for example, six countries (Brazil, India, Korea, Malaysia, South Africa, Taiwan) accounted for

83% of all emerging market capitalization, whereas in 1997 they accounted for just 46% of the total (Hale, 1999).

The increased foreign direct investment (FDI) flows to emerging markets and the tremendous expansion in the number of developing countries with stock markets are seen as positive trends for emerging markets. These trends are therefore raising questions about the emphasis countries need to place on developing their own stock exchanges, a means to assure efficient resource mobilization and allocation for the corporate sectors. In addition to this, foreign portfolio investment has also played an important role in the rapid growth of the emerging economies stock market (Elton, et. al, 2003). For example, the foreign portfolio investment played a key role in supporting the economic recovery and restructuring of Asia after the Asian crisis.

Stock market development has a number of macroeconomic features. It is usually measured by market capitalization, listing, the extent of new capital raised, trading value, stock market size, liquidity, volatility, and the legal rule (regulation and supervision) in the market. This chapter focuses on pointers to the development of stock markets elsewhere, before considering their pertinence in Fiji's case.

The chapter is structured in the following manner. Firstly, there is a discussion on cross-country differences in stock market development, which is then followed by a discussion about the relationship between stock markets and the other sources of investment financing. Following this there is a section that looks at how stock market development leads to economic development. In the next section a table is used to summarize the factors leading to stock market development and then an in-depth discussion of these factors follows. This chapter also explains in detail the theories concerning the decision to go public. Moreover a section of the chapter will also look at the pointers to development elsewhere and consider their pertinence to the Fiji case. The final section provides the summary and a conclusion to the chapter.

2.2 Cross- Country Differences in Stock Market Development

During the last two decades the capitalization of stock markets has increased tremendously in almost all developing countries. Although the capitalization of stock markets has increased in all such countries, the differences between the countries have increased: the standard deviation of across-country levels of stock market capitalization increased from 0.21 in 1986 to 0.37 in 1996 (Jong and Semenov, 2002). Moreover, most countries did not change position when ranked according to the level of stock market capitalization (as a percentage of GDP): the correlation between the figures for 1986 and those of 1996 is 0.92. This suggests that the pattern of across-country differences in importance of stock markets is very persistent. This then raises the question of which factors can explain these differences in financial systems, in particular the differences in importance of stock markets. Essentially three approaches can be distinguished for explaining across-country differences in financial systems.

2.2.1 The Legal Approach

A legal approach is suggested by La Porta and his co-authors (La Porta et al. 1997, 1998, 2000). This approach holds that the key precondition for the development of the equity market is the protection of outside investors through the legal system, including both suitable regulatory provisions and the quality of their enforcement (La Porta et al.1997). If the legal protection is good, the investment in equity will increase.

2.2.2 The Political Approach

Pagano and Volpin (1999) and Rajan and Zingales (2000) exemplify the adoption of a positive approach. The latter claim that political structures explain the across-country differences in stock market developments. Rajan and Zingales argue that shifts in political coalitions determine shifts in the character type of financial development. In particular, they argue that markets and the resulting competition do not respect the value of incumbency and can destroy some forms of insurance provided by social and economic institutions. When political groups affected by this become strong, the political system might suppress the development of markets.

2.2.3 The Cultural Approach

The cultural approach argues that cross- country differences can be explained by differences between national cultures, defined as systems of beliefs that shape individuals’ actions. Studies belonging to this group include Licht et al. (2001), Stultz and Williamson (2001) and Semenov (2000). Their studies have an explanatory character. They investigate whether there exists a relationship between characteristics of governance systems and cultural dimensions.

Culture influences the preferences of economic agents. These preferences shape the behaviour of the agents and hence the organization and the actual performance of an economy. Cultural differences across countries therefore will lead to differences between nations with respect to preferences, economic institutions and organizations.

In order to understand how culture influences stock market development, we have to find out which preferences are relevant for this process, and how these preferences are influenced by cultural norms.

The literature assumes that the utility of investors is determined by the return and risk characteristics of the investment. People are uncertainty averse, that is they tend to prefer the choices (lotteries, investment, etc.) about the risks of which they know more to those about the risks of which they know less. This assumption is validated by the empirical evidence and has recently been incorporated in the theoretical literature (see e.g. Bewley, 1986 and Gilboa, 1987). Investments in equity are more uncertain than those in alternative assets such as bonds and deposits. The attractiveness of investing in shares compared to the other assets will thus depend on the attitude of investors towards uncertainty. More uncertainty adverse investors will be prepared to pay less for a share of a given firm. Investors in different countries may differ in the degree of their uncertainty aversion.

The regulatory environment will also significantly influence the attractiveness of investing in shares. It is expected that demand for shares will be higher in countries where the inhabitants have a lower aversion towards uncertainty, and where the regulatory environment makes investment in shares more attractive.

2.3 Relationship between Stock Markets and Other Sources of Investment Financing

Demirguc-Kunt (1992) considers the unique role for both the banking and equity markets in developing countries. The relationship between debt and equity finance shows the existence of an active stock market that increases debt capacity of companies. The results then imply that equity markets and financial intermediaries are complements such that the existence of an active stock market results in increased volumes of business for financial intermediaries. Thus countries with well – developed stock markets tend to have well-developed financial intermediaries. Similarly, Murinde (1993) argues that the development of a stock market facilitates reforms in the banking sector. It is to be noted that most problems in the banking sector stem from unbalanced capital structures in the company sector, especially where equity markets are non-existent(Dailami and Atkin, 1990). In this respect, the development of capital markets in the developing economies has great implications for banking reform.

Demirguc-Kunt and Maksimovic (1996) investigate fears that stock development will reduce the volume of bank business. Noting that stock markets serve an important role in a well-developed banking sector as debt and equity are not substitutes, they conclude from their study that initial improvements in functioning of a developing stock market produce a higher debt-equity ratio for companies and therefore more business for banks. According to them, quoted companies can operate with a higher level of gearing than unquoted companies because they can rectify an over geared position with an equity issue relatively easily.

2.4 Stock Market and Economic Development

It is important to include measures of the deep structural determinants of the development of the financial system in analyzing the impact of financial development on economic growth. The results, which are related to the literature on growth in emerging economies, suggest that development of local financial markets supports economic growth.

The empirical studies examining the impact of the stock market on economic development have produced some important insights. Earlier studies based on international panel data returned differing results. For example, Atje & Jovanovic (1993), using a data set of 39 countries over the period 1980–1988, found that a strong, positive and statistically significant relationship existed between stock markets and economic growth. However, Harris (1997) later criticized this result on the basis of the methodology employed. Using an expanded data set and an alternative model specification, Harris (1997) concluded that the evidence suggesting that stock markets promote economic development was "at very best weak". More recent studies by Levine and Zervos (1998) and Khan and Senhadji (2000) have been particularly informative owing to the utilization of nested models and more detailed model specifications that consider separately the channels through which financial institutions and markets impact upon economic development. The findings of these studies suggest that a) stock markets and financial institutions are not necessarily competing in nature, but rather are complementary with both positively impacting on economic development, and b) the stock market has its greatest impact on economic development through its creation of liquidity. This finding acts as confirmation for earlier theories postulating that the liquidity provided by the stock market raises the productivity of capital in an economy on a broad basis because it facilitates longer-term, profitable investment (Demirguc-Kunt and Levine, 1996).

Levine and Zervos (1998) find that stock market variables such as market capitalization over GDP, traded value over GDP, and various measures of asset mispricing, help predict subsequent economic growth.

Another important contribution of recent empirical studies has been to show that the impact stock markets have on economic development appears to display considerable diversity between individual countries. For example, evidence presented by Arestis and Demetriades (1997) concluded that the relationship between stock markets and economic development in the US was largely positive, but insignificant in the case of Germany. Such findings should not be surprising. Okuda (1990), for example, earlier noted that the causal link between financial factors and economic development is crucially dependent upon the nature and operation of financial institutions, markets and policies pursued by individual countries. Therefore, while the findings of studies using international data are informative, they also need to be complemented by individual country case studies.

2.5 Factors Leading to Stock Market Development

Table 2.1 shows a summary of the empirical findings of factors responsible for stock market development.

Table 2.1 Factors leading to stock market development

Factors	Researchers	Jurisdiction	Findings
1. Institutional Investors	Voronkova and Bohl (1999)	Polish stock market (Developing country)	Positive effect on stock market development
	Catalan, Impavido and Musalem (2000)	Developing economies	Positively affects stock market development
2. Privatization	Pagano (1993)	Developing economies	Leads to stock market development
	Hale (1999)	Developing countries (Asian markets)	Leads to stock market development
	Rose (2000)	Developed country (New Zealand)	Privatization increases market capitalization, increases trading activity and increases liquidity
	Boutchkova and Megginson (2000)	Developed economies	Leads to stock market capitalization
	Claessens, Djankov and Klingebiel (2001)	Transitional economies	Leads to stock market capitalization

Factors	Researchers	Jurisdiction	Findings
3.Political Risks	Taufiq (1996)	Emerging stock markets	Exert negative influence on emerging markets
	LaPorter et al. (1997 and 1998)	Lower quality legal rules and low quality law enforcement	Smaller and narrower capital markets
	Lui (2000)	Emerging bear markets	Affects stock market development
4. Pension Funds	Hale (1999)	Developing countries	Increases savings leading to increased shareholders thus increasing market capitalization
5. Information Availability	Roell (1992) and Khambata(2000)	Emerging stock markets	Tight disclosure requirements create confidence in emerging stock markets
	Demirguc-Kunt and Levine (1996)	Countries with strong information disclosure laws	More liquid markets
	Databank Research (1995)	Any stock market	Availability of sufficient, reliable and timely information leads to stock market development

Factors	Researchers	Jurisdiction	Findings
6. Liquidity	Levine (1991)	Emerging stock market	Shares more attractive investment leads to stock market development and hence economic growth
	Levine and Zervos (1998)	Emerging stock market	Countries with more liquid markets tend to grow faster
7.Listing on the stock exchange	Levine (1991),Pagano, Panetta and Zingales (1998), Subrahmanyam and Titman (1999)	Developing economies	Listing has a major positive impact on stock market development

2.5.1 Market Capitalization

Market capitalization indicates the amount of growth in the market. During the past decade there has been a dramatic expansion in the stock market capitalization of both developing countries and industrial countries. Between 1988 and 1997 the stock market capitalization of the industrial countries expanded from $US9.7 trillion to $US24 trillion while the stock market capitalization of the developing countries grew from $US500 billion to nearly $US2.3 trillion (Hale, 1999) .The capitalization of the stock market is determined as the equilibrium of demand and supply of equity. The demand curve will be determined by the amount of capital available for investments and the attractiveness of investing in shares in comparison to investing in other financial instruments such as bonds, deposits and property. The supply curve is determined by the attractiveness of issuing shares for managers/ owners. Capital invested in shares comes from individuals and institutional investors. Capital will seek the best returns, taking both quality and quantity into consideration. Investment opportunities offering poor returns will not be funded at all. Those offering good returns will secure a good price. Further, if good returns are offered, international capital should be attracted. Domestic constraints are not relevant, particularly in a small economy where the absolute capital requirements are small.

2.5.2 Institutional Investors

Catalan, Impavido, and Musalem (2000) examine the determinants of stock market development for some emerging markets, studying 27 countries in total. They find that, apart from macro stability and legal rights, the size of the institutional investor bases positively affects stock market development, and report evidence of a causal time series relation between institutional investors and stock market development. In another study, Voronka and Bohl (1999) examined the behaviour of pension fund investors on the Polish stock market. Their entrance on the Polish stock market due to the national pension system reform in 1999 provided a unique opportunity to obtain a deeper insight into the behaviour of institutional investors in an emerging capital market. The results showed that the investors represent a key group of institutional investors on the Polish stock market. The result also showed that the pension fund managers in Poland are apt to track positive feedback trading strategies, being actively engaged in selling stocks of smaller companies that performed poorly in the previous period and acquiring well-performing stocks with large capitalization. These activities of the institutional investors have led to the development of the Polish stock market.

2.5.3 Privatization

The notion of privatization regimes is an area of much debates. The implementation of privatization regimes has long been a worldwide trend. In fact privatization programs have effectively halved worldwide state ownership of assets over the past two decades (Boutchkova and Megginson, 2000). Overseas studies have conclusively documented a direct link between privatization and stock market development. These studies implied that governments choose privatization as a means of developing their stock markets. The analysis of stock market growth via privatization programs has evolved from this recent trend by governments; and has produced a new stream of literature fuelling the debate on the benefits of privatization. Privatization is a major component in developing both capital and product markets within a country (ibid.).

Claessens, Djankov, and Klingebiel (2001) investigated the development of stock markets in a group of transition economies and highlight the role of privatization for stock market development in this sample of countries. Pagano (1993 a) argues that companies seeking listings create an externality for other companies because their shares increase the potential for diversification for all investors. As the original owners incur some floatation costs but do not receive all the benefits of diversification, there will be an undersupply of new listings. Privatization may resolve this "low listing trap" by adding diversification possibilities, encouraging both investment and listings by private companies[2]. In addition, increasing overall liquidity due to new privatization related listings could have a self-reinforcing effect on the willingness to hold shares, removing the local market from a " low liquidity trap".[3] These gains in market deepening and broadening could of course be the result of new private listings as well. Another possibility would be that such listings are forthcoming once the number of prior listings reaches a critical point.

Many developing countries promoted development of their equity markets by privatizing state owned companies. In Mexico, for example, the privatization of both Telmex and the banks significantly boosted both stock market capitalization and foreign investment in the market during the early 1990s. In 1993, Telmex alone accounted for a third of the country's total market capitalization. Chile, Brazil and Argentina also gave a significant boost to their stock market development by privatizing telephone companies and utilities as well as selective state owned commercial and resource companies, such as the great Argentine Company. In Asia, governments have privatized telephones and utilities as well as a variety of infrastructure projects. It is important to privatize such companies because in many developing countries they tend to have the largest stock market capitalization and thus can serve as a magnet for foreign portfolio investors (Hale, 1999). There are now publicly listed toll road companies in Thailand, Malaysia, China and Indonesia. The Asian markets also have several port companies, including a Filipino firm, which has itself been privatizing ports all over the world. Governments in Eastern Europe and the former Soviet Union have also made extensive use of stock markets to promote privatization. The Czech Republic, Poland and Hungary privatized their banks soon after the end of communism and used the equity market to help recapitalize them. Russia also had a privatization boom during the mid-1990s, which led to equity market trading in several government owned oil companies, telephone companies and utility companies as well as a wide variety of industrial enterprises. Before the August 1998 financial crisis, foreign investors had been very

[2] Improving access by domestic investors to foreign financial markets would have a stronger diversification effect and may thus lead to a similar acceleration in local listings. [2] Pagano (1989) offers a theoretical interpretation of the externality effect of liquidity, which is parallel in spirit to the diversification argument. In his model, participation by each trader reduces the volaitility and increases the liquidity of the market for all other trades, thereby inducing more entry. This in turn reduces volatility and enhances liquidity, generating the potential for mulitple, Parteo-ranked equilibria.

enthusiastic buyers of Russian telephone, utility and oil companies on the grounds that they sold at large valuation discounts to comparable companies in both the industrial and developing countries.

2.5.4 Political Risks

Political risks can be seen as any drastic change in the government structure or personnel, which may result in a drastic change in social and economic policy. These sudden changes might induce earnings revisions among companies. They can also even lead to a change in sovereign credit ratings by international credit agencies.

Changes in policy on the corporate taxes, personal income, alcohol and tobacco imports or casino revenues are not unusual events ensuing from change in a government in emerging markets, neither are they unique to these markets. These changes in the socio-economic environment in a country could positively or negatively affect forecasts of future earnings in particular sectors and subsequently the stock market index (Lui ,2000).

Research by Lui (2000) on “How important were political factors for Asian stock market investors throughout the recent financial crisis?” found that although investors do not pay much attention to political risk in bull markets, it is still a valuable piece of information for investors to know whether political factors influence stock market indices, especially during normal and bear market conditions.

La Porta et al. (1997, 1998) find that countries with a lower quality of legal rules and law enforcement have smaller and narrower capital markets and that the listed companies on their stock markets are characterized by more concentrated ownership. Demirguc-Kunt and Maksimovic (1998) show that countries with high ratings for the effectiveness of their legal systems are able to grow faster by relying more on external finance.

The study by Taufiq (1996) on volatility, risk and the persistence of volatility in six emerging stock markets before and after the 1987 stock market crash provides an important perspective in analyzing the behaviour of emerging stock markets. The general perception is that political factors will exert more influence on emerging stock markets than on the developed markets (Lui, 2000).

On the other hand, the results from the study of political impact on Hong Kong stock market volatility (1990–1993) by Chan and Wei (1996) indicate that unpleasant political news increases the stock volatility of both blue-chip (Hong Kong Hang Index component stocks controlled by HK or British businessmen) and red-chip shares (People's Republic of China state owned enterprises controlled companies), (ibid.).

2.5.5 Pension Funds

Many developing countries have been introducing pension funds in order to encourage retirement savings and at the same time reduce their dependence upon foreign capital inflows. Singapore and Malaysia created a compulsory retirement savings program shortly after independence in order to help finance economic development. Chile took the additional step in 1980 of creating universal retirement savings accounts, which gave individuals a choice over where to allocate their savings, (Hale, 1999).

Hungary and Poland have also just introduced universal retirement savings programs, which borrow heavily from the Chilean model, (ibid.). If this trend continues, there could soon be more individual holdings through agencies in the developing countries than in the old industrial countries. Such a development will encourage further growth of both domestic savings and the capitalization of the debt and equity markets for the developing countries. The growth of the pension fund ownership of corporate equity will also create an important constituency forcing managements to focus more attention on corporate profitability. In the past, by contrast, Asian corporate managements were typically accountable only to the families, banks or governments. The rise of pension funds is helping to institutionalize a flow of savings into stock and bond markets, which is unprecedented in the history of the developing countries. This is true for Fiji as well. The Fiji National Provident Fund (FNPF) was granted the ability to provide a wider array of financial services under a 1999 order from the Ministry of Finance and it has also worked to allow individual members to use their accounts with FNPF to directly purchase shares or other investment products. The Fiji National Provident Fund, the mandatory retirement system funded through payroll deductions, has played a leading role in the development of the stock exchange. It has bought almost all its equity investments in Fiji by way of a private placement. The restructuring of FNPF benefits has certainly impacted on financial markets.

In the old industrial countries, there has been a strong market capitalization. The US, Britain, Australia and other English speaking countries have large stock market capitalization (80-140% of GDP) in part because their pension fund assets are now equal to 60-80% of GDP. Germany, France and Italy, by contrast, have small stock markets capitalization’s (20-40% of GDP) because they have lagged far behind in creating retirement savings programs.

2.5.6 Information Availability

The availability of sufficient, reliable and timely information is crucial to the development of any stock market. The frequency at which adequate and reliable information is reported affects not only the accuracy with which investors value their investment, but also the assessment of risks and opportunities by potential investors in the stock market and for that matter the economy (Databank Research, 2001). In comparative terms, while the developed markets with well established institutions are characterized as having high levels of liquidity and trading activity, substantial market depth and low information asymmetry, the emerging markets are said to exhibit more information asymmetry, thin trading and shallow depth because of their weak institutional infrastructure. Kumar and Tsetsekos (1999) demonstrate the implied differences between the institutional set-up of emerging markets and developed stock markets, using 1980-992 data sets (Appendix 2 Table 1). They conclude that as emerging markets mature in terms of their institutional infrastructure, they tend to converge to their developed counterparts.

In an environment in which information flow is slow and inadequate, market players may try to use unacceptable and unconventional ways to source information. This practice can expose uninformed investors to risks that some investors might already be aware of and this may undermine the confidence of investors in the stock market. For example, some listed companies release financial statements to the Ghana Stock Exchange (GSE) many months after the end of the financial year. By this means, in effect, they convey no information (Dewotor, 1995). Perhaps it is time for the GSE to ensure that listed companies comply with its regulations, which require companies to submit preliminary full-year reports to the GSE within 3 months after the end of the financial year.

As part of developing a good investor communications strategy, management of listed companies should shift their focus from the traditional mode of communication through press releases to organizing press conferences where management will focus on discussing what they are doing to build shareholder value. Regular press conferences ensure clearer and more detailed communication by providing the opportunity for analysts and journalists to ask questions and get answers. This will also be of value to investors and would-be investors.

In this information age in which computers have facilitated the generation and transfer of information, companies should be able to release financial statements on a more timely basis by use of the World Wide Web. More timely information will help investors to value their investments more accurately. The ability to compete effectively in today's increasingly competitive global capital market will hinge on the extent to which we are able to enhance the flow of relevant information to the existing and the potential investors.

2.5.7 Liquidity

A further problem, which governments in the emerging markets cannot easily correct, is liquidity. Glen (1994) defines liquidity as the ability to transact quickly and without substantially moving prices. Since emerging market economies have small market capitalization and less liquidity than the companies in the developed countries, their valuation can suffer as well. A research paper produced by the World Bank in 1993 found a strong positive relationship between stock market liquidity and economic growth in many developing countries. Levine and Zervos examined the role of stock market development on economic growth in 49 countries during the period 1976 to 1993. As Ross explained in a subsequent report for the Investment Company Institute, stock markets contribute to the economic development by enhancing the liquidity of capital investments (Levine,1991). Many profitable investments require a long-term commitment of capital, but investors might not want to tie up their savings for such long periods. A liquid equity market allows savers to sell their shares easily if they so desire, thereby making shares relatively more attractive investments. As savers become comfortable with investing in the long-term equities, they are likely to rebalance their portfolios towards equities and away from shorter-term financial investments. For companies, these rebalancing lowers the cost of shifting to more profitable that is, productive-longer term projects. Higher- productivity capital in turn boosts economic growth. It also increases Net Present Value's (NPV)of investment in real assets and makes investment in real assets that had a marginal profitability more attractive.

However, some economists argue that very liquid markets hurt economic development. By allowing investors to sell stock quickly, liquid markets may reduce investor commitment and reduce incentives of stockowners to exert corporate control by monitoring the performance of managers and companies (Shleifer and Vishny,1997). In other words, dissatisfied owners sell their shares instead of working to make the firm operate better. According to this view, greater stock market liquidity may impede economic growth by hindering corporate governance.

But recent evidence suggests that well-functioning equity markets accelerate economic growth (Levine and Zervos, 1998). This evidence is based upon the relationship between indicators of stock market liquidity and economic growth. The turnover ratio, which equals the total value of shares traded as a share of market capitalization, is also a good indicator of economic growth. Liquidity can also be measured as the value traded ratio divided by stock price volatility. More liquid markets should be able to handle high volumes of trading without large price swings. This measure of liquidity also shows that countries with more liquid stock markets tend to grow faster.

2.5.8 Listings

The decision to go public is one of the most important and least studied questions in corporate finance. Pagano, Panetta, and Zingales (1998), for example, provide a recent review and analysis of why companies go public. Subrahmanyam and Titman (1999) extend this literature to a across-country context by developing a model of the relation between the listing decision and local financial market development.

Listings of large privatized companies provide substantial impact on trading liquidity, while at the same time increasing investment opportunities for local investors to increase their portfolio diversification. These effects have a positive impact on the risk-sharing function of the market and lead to market deepening. This should particularly hold for developing countries, where local investors are not well diversified as a result of capital controls (Levine, 1991)[4], or may be due to the lost opportunity of international diversification. Fiji's stock market is also not internationally diversified and thus investors here look forward to the listing of large and successful companies to increase their portfolio diversification or might look at ways of investing overseas.

Going public is not a stage that all companies eventually reach, but is a choice (Pagano, Panetta and Zingales, 1998). The conventional wisdom is that going public is simply a stage in the growth of a company. Although there is some truth in this, "theory" alone cannot alone explain the observed pattern of listings. Even in developed capital markets like the United States, some large companies such as United Parcel Service (UPS) or Bechtel are not public[5]. In other countries, like Germany and Italy, publicly traded companies are the exceptions rather than the rule, and quite a few private companies are much larger than the average publicly traded company. These cross-sectional and cross-country differences indicate that going public is not a stage that all companies eventually reach, but is a choice. This begs then the question of why some companies choose to use public equity markets and some do not.

[4] These local investors tend to be less diversified because of capital controls. New listings due to privatization sales reduce the non-systematic risk of a local equity portfolio, and increase the willingness to invest in stocks, leading to higher valuation and trading.
[5] In 1992 UPS had $16.5 billion in sales and 267 000 employees. Bechtel group had $7.8 billion in sales and 31 000 employees.

Empirical Predictions of the Main Theories Concerning the Decision to Go Public

Table 2.2 illustrates the main costs (Panel A) and benefits (Panel B) of the decision to go public.

Table2.2 Empirical Predictions of the Main Theories Concerning the Decision to Go Public

	Model	Empirical Predictions: Effects on the Probability of IPO	Empirical Predictions: Consequences after IPO	Jurisdiction
		Panle A: Costs of Going Public		
Adverse selection and Moral hazard	Leland and Pyle (1977) Chemmanur and Fulghieri (1999)	Smaller and younger companies less likely to go public	Negative relation between operating performance and ownership	US
Fixed costs	Ritter (1987)	Smaller companies are less likely to go public		US
Loss of confidentiality	Campbell (1979), Yosha (1995)	High-tech companies less likely to go public		Italian Companies
		Panel B: Benefits of Going Public		
Overcome borrowing constraints		IPO more likely for high-debt/high investment companies	Deleveraging/high investment	US
Diversification	Pagano (1993)	Riskier companies more likely to go public	Controlling shareholder decreases his stake	US
Liquidity	Market microstructure models	Smaller companies are less likely to go public	Diffuse stock ownership	US
Stock market monitoring	Holmerstrom and Tirole (1993), Pagano and Roell (1998)	High investment companies more likely to go public	Large use of stock based incentive contracts	US
Enlarge set of potential investors	Merton (1987)		Diffuse stock ownership	US
Increase bargaining power with banks	Rajan (1992)	IPO more likely for companies paying higher rates	Decrease in borrowing rates	US
Optimal way to transfer control	Zingales (1995a)		Higher turnover of control	US
Exploit mispricing	Ritter (1991)	High market-to-book values in the relevant industry	Underperformance of IPOs; no increase in investment	US

Adapted from Pagano,Panetta and Zingales (1998).

2.5.8.1 Motivations for Going Public

A large set of papers model the going-public decision. Zingales (1995) and Mello and Parsons (2000) postulate that the IPO is a strategy used by companies that want to sell their companies to dispersed shareholders and maximize the proceeds. Papers by Leland and Pyle (1977), Chemmanur and Fulghieri (1999), and others emphasize that asymmetric information may deter certain companies from going public. Furthermore, according to Rajan (1992), by gaining access to the stock market and disseminating information to the generality of investors, a company elicits outside competition to its lender and ensures a lower cost of credit, a larger supply of external finance or both. Both Holmstrom and Tirole (1993) and Schipper and Smith (1986) argue that the opportunity to use publicly traded stock and stock options allows public Companies to design more efficient compensation plans than would be possible under private ownership.

Three papers confront theories of the going-public decision with a dataset including both public and private companies. Pagano, Panetta, and Zingales (1998) studied a sample of almost 20 000 private companies in Italy and tracked them from 1982 to 1992 to observe which companies conduct an IPO. They find that a primary factor driving the IPO decision is market timing. Private companies go public when public companies in the same industry have high market-to-book ratios. After the IPO, these companies experience a decline in investment and profitability, suggesting that managers sell public equity to exploit mispricing rather than to take advantage of growth opportunities. They also find that the probability of going public is positively correlated with the size and age of the firm, and that the average Italian Company making an IPO is eight times as large and six times as old as the average US company making an IPO. Fischer (2000) uses a sample of private companies in Germany to address similar responses on when companies choose to go public and his results were similar to Pagano, Panetta, and Zingales' findings.

There was another study by Helwege and Packer (2003) where they used US private companies to find out whether they are likely to go public and their period of study was from 1973 to 1998. In contrast to Pagano et al. Helwege and Packer found that younger companies are more likely to go public than older ones, though they confirm the earlier findings of a positive link between firm size and going public and no correlation between the IPO and subsequent growth opportunities.

Academic theory suggests four motivations for going public. First, let us consider the cost of capital literature. For example, Scott (1976) and Modigliani and Miller (1963) argue that companies conduct a public offering when external equity will minimize their cost of capital (thereby maximizing the value of the company). Based on asymmetric information and possible stock price misvaluation, Myers and Majluf (1984) and Myers (1984) further argue for a pecking order of financing: internal equity, debt financing, and then external equity.

Second, Zingales (1995) and Mello and Parsons (2000) argue that an IPO allows insiders to cash out. Ang and Brau (2003) demonstrate that insiders opportunistically sell shares in the IPO for personal gain. Additionally, Black and Gilson (1998) argue that the IPO gives venture capitalists an opportunity to exit, providing an attractive harvest strategy.

Third, IPOs may facilitate takeover activity. Zingales (1995) argues that an IPO can serve as a first step towards having a company taken over at an attractive price. Brau, Francis, and Kohers (2003) argue that IPOs may be important because they create public shares for a firm that may be used as "currency" in either acquiring other companies or in being acquired in a stock deal.

Fourth, IPOs may serve as a strategic move. Chemmanur and Fulghieri (1999) argue that IPOs broaden the ownership base of the firm. Maksimovic and Pichler (2001) assert that companies conduct IPOs to capture a first-mover advantage, i.e to get the benefits of the good share prices and high demand when companies doing well in the same industry go public. They also suggest that an IPO can increase the publicity or reputation of the firm going public.

2.5.8.2 Factors that Influence IPO Timing

Ibbotson and Jaffe (1975), Ritter (1984) and others show that IPOs come in waves. There are three theoretical domains that explain the timing of IPOs. First, managers take advantage of bull markets and attempt to capture attractive stock prices. Empirical measures of bull markets include current market conditions (Lucas and McDonald, 1990), current industry conditions (Pagano, Panetta, and Zingales, 1998), predicted overall market conditions

(Lucas and McDonald, 1990), predicted industry conditions (Lowery, 2002), and recent historical market conditions (Ritter and Welch, 2002).Using long-run returns, Ritter (1991) and Loughran and Ritter (1995) posit that companies time IPOs to take advantage of favourable windows that allow them to get the most attractive offering prices**.**

Second, timing is driven by the attractiveness of the IPO market. Lowery and Schwert (2002) argue that recent first-day stock performance of companies going public leads other companies to decide to go public. Choe, Masulis and Nanda (1993) argue that companies prefer to go public when other good companies that have better business reputations and financial strength are currently issuing.

Third, Choe, Masulis, and Nanda (1993) and Lowery (2002) argue that companies go public when they reach a certain point in the business growth cycle and need external equity capital to continue to grow. Chemmanur and Fulghieri (1999) said that “hot” IPO markets arise when there is an anticipated increase in the market growth opportunities in a particular industry, so that many companies in the industry will go public simultaneously in a short span of time. Another way in which hot IPO markets can arise is due to an exogenous reduction in the evaluation costs of companies in a given industry again resulting in a number of companies in that industry going public during a relatively short span of time. Such an exogenous reduction in costs for companies in a given industry may occur due to a few products from that industry becoming extremely successful (thus focusing media and other attention on the industry, thereby leading to a large amount of otherwise costly information about the industry becoming freely available in the public domain). Outsiders may also be able to learn various lessons about evaluating companies in a given industry from their experience with companies going public earlier, so that their cost of evaluating companies from the same industry going public later may be significantly reduced, (ibid.).

Stock exchanges imposing stringent listing requirements on the companies can be interpreted as a requirement about the minimum amount of information that the firm has to make available to the public before the firm can be listed and this imposes an upper bound on the outsiders’ cost of evaluating the firm[6]. Imposing such an upper bound on the evaluation cost leads to an upper bound on the variance (conditional on the equity offering

[6] Other listing requirements on most exchanges include minimum requirements on the firm’s assets, net worth, and the total market value of the shares floated in the initial public offering. Clearly these restrictions also tend to contribute towards imposing an upper limit on outsiders costs of evaluating companies.

price) of the true value of the firm whose equity is listed, and is consequently desirable for exchanges seeking to control for this variance.

The determinants to go public can be inferred both from the ex ante characteristics of the companies that go public and from the ex post consequences of this decision on a company's investment and financial policy.

Factors affecting the probability of an IPO are:

- the market to book ratio at which companies in the same industry trade
- size of the company
- Large companies that are more profitable are more likely to go public as they can attract investors easily. On the other hand the small organizations have more potential to grow but they will distribute nil or small amounts of profits and thus it is more difficult for young and small companies to capture the investor's trust.
- Independent companies are also more likely to go public after major investments and abnormal growth, and to reduce their leverage and investment after the IPOs. So their decision to go public can be interpreted as an attempt to rebalance their balance sheet after large investment and growth.

Independent companies experience a reduction in the cost of bank credit after the IPO. This effect is present even controlling for companies' characteristics and for the reduction in leverage experienced after going public. Moreover, after the IPO, these companies borrow from a larger number of banks and reduce the concentration of their borrowing. The reduced cost of credit may stem from the improved public information associated with stock exchange listing from the stronger bargaining positions vis–a-vis banks determined by the availability of an outside source of funds (Pagano et al., 1998).

2.5.8.3 Why Companies Do Not Go Public

A study by Brau and Lambson (2004) found that maintaining decision–making control is the most important issue in deciding whether or not to stay private. Two other factors that affect going public are ownership dilution and bad market/industry conditions.

In addition to this, the chief consultant of the Australian Securities Institute, John Rutherford, said companies were worried they could come under the scrutiny of the tax office as a result of listing, or that information owners wish to withhold may have to be disseminated under the disclosure rules.

2.6 Applicability of the Stock Market Development Factors to Fiji

The literature review in this chapter pertains to a broad sample of countries, i.e. is based on both developing and developed countries, and it shows the factors that have been pertinent for stock market development in these countries. This section of the study attempts to illustrate how many of these factors are relevant to Fiji's situation because it is likely not all factors that are at play for stock market development in other countries may be applicable to Fiji, due to reasons like the size of the market and its social, economic, political and cultural setting.

From the list of the factors that are seen to be contributing towards stock market development, privatization of government owned entities and the availability of the pension funds appear to exert a positive influence on Fiji's stock market development as well, as will be seen in Chapter four. At the time of writing regarding privatization there had been only the sale of Amalgamated Telecom Holdings shares of the government, which was driven by the need to pay for the National Bank of Fiji's losses and this action of the government had really led to a large increase in the stock market capitalization. There is also a striking similarity regarding the levels of political risks in a country and its relationship with the stock market development in virtually all countries: this is the case for Fiji as well. It would be seen in chapter four how the trading activity of the stock market has been affected when the political situation of Fiji was unstable and this issue will also be dealt with in chapters five and six, where the listing decisions of the companies are considered.

Additionally, liquidity is also seen as an essential factor in stock market development in all countries and as will be seen in chapter four, it is also a contributing factor in Fiji's stock market development. Furthermore, the requirement of the listed companies in Fiji to submit the audited annual reports to the stock market and to be placed in the public domain after four months from the end of the balance day is very strictly adhered to by all companies. This shows that the availability of timely information to the users has also been an important contributing element in creating investor confidence in the stock market and thus helping with the stock market development. This aspect of the listing requirement will be further discussed in chapter six of this thesis. The presence of institutional shareholders also appears to be another contributing factor to the Fiji's stock market development. The available data on investment portfolios of some of the institutional shareholders in chapter four show that these investors exert a positive impact on the stock markets'[7] market capitalization, its turnover ratio and to some extent to the liquidity of the market as well.

Moreover, listing has a major positive impact on the stock market development in all countries and this is unquestionably true for Fiji as well. Increasing the number of listings on the stock market, especially in developing countries, is seen as a very challenging task for these stock markets. Chapters five and six will address the issues of why companies in Fiji choose to list and why they choose not to list on the stock market. Chapter five specifically examines why companies list on the SPSE, the uncertainties these listed companies had before listing and their satisfaction with being listed together with the role played by SPSE and its regulatory body, the CMDA. Chapter six addresses the most important decision taken by any firm regarding the ownership structure. It provides an analysis of why companies choose to list and why they choose not to list on the SPSE. The chapter gives detailed explanations of the reservations that likely-to-list companies have in listing and the possible reasons that may lead them to decide to list on the stock market.

2.7 Summary and Conclusion

The literature investigated shows the main theoretical and empirical studies on emerging stock markets, identifying the key factors leading to stock market development in the developing countries. Some findings from research on developed stock markets are used to provide a comparison where necessary. It also shows that there are cross-country differences, which then leads to the differences in the countries' financial systems. The findings in the literature provide evidence that development of stock markets leads to the development of the countries' financial systems, which then lead to economic growth. Researchers have associated poor stock market performance with small market size, lack of institutional investors and unavailability of timely information and less liquidity in the stock markets.

[7] Unit Trust of Fiji's investment in the listed companies in 2001 was $8 604 320 and in 2002 was $15 079 452 , Fijian Holdings Unit trust investment in the listed companies in 2003 was $1 532 000 and it remained same for the years 2004 and 2005 and FNPF's investment in Amalgamated Telecom Holdings in 2000 was $263 288 000, in 2001 remained same, in 2002 was $295 468 000, in 2003 was $295 669 000, in 2004 was 295 728 000 and in 2005 the investment was $295 752 000.

The list of the factors identified as leading to the stock market development can be seen as playing a crucial role in the stock market development in the developing countries. Since Fiji is a developing country and those factors that have helped in the development of stock markets of other developing countries it is pertinent to consider which factors are present and which are absent in the Fiji context. This can be expected to provide some pointers as to what policy initiatives can be considered to foster the development of the SPSE..

Chapter Three
Methodology

3.1 Introduction

This chapter addresses the methodological issues related to this study. The units of analysis in this research are the stock market and the companies already listed under the South Pacific Stock Exchange (SPSE), companies where listing is under consideration and also those companies that have recently decided not to list.

While it may be premature to conclude that influences on stock market development in recent years will prove to be important in the long term, the literature has shown that the following factors have positively affected stock market development in recent years,-: the presence of institutional investors, availability of pension funds, availability of timely information, level of political risks, privatization, liquidity. The literature has also identified the following factors as pertinent to making the listing decision: avoiding the borrowing costs (Pagano 1993), increasing the bargaining power with the banks (Rajan 1992), allowing the public companies to design more efficient compensation plans than would be possible under a company's exclusively private ownership base of companies (Holmstrom and Tirole 1993; Schipper and Smith 1986), improving the publicity or the reputation of the firm (Chemmanur and Fulghieri 1999), enlarging the set of potential investors (Merton 1987) , exploiting mispricing (Ritter 1991), and an easier way to raise equity.

Information about other emerging economies, the dollar amounts of market capitalization and value traded on the major domestic stock exchanges is obtainable from the International Finance Corporation's (IFC) *Emerging Markets Factbook*, now named the Standard & Poor's Emerging Markets Databases. These data have typically been used to measure the importance of stock markets in financial systems around the world, the contribution of stock markets to firm financing, and the relation between stock market development and economic growth. The data cover only the major stock exchanges in each country, listing and trading on formal, organized public exchanges; any over-the-counter trading and other markets' trading are ignored.

The findings also show that much of the research on stock market development has been done in the structural functionalist domain, as the countries under study had stock exchanges larger than the SPSE in size, numbers of securities, volume traded, market capitalization, liquidity and numbers of listings. On this basis sufficient data were generated to allow statistically significant analyses to be undertaken.

The present research is based on the naturalistic case study method, as the use of a functionalist approach to stock market research cannot be justified on the grounds of market size and related factors. Naturalistic research commences from specific, real world situations; the main intention is to answer the question: 'What are the factors that are leading to the corporate listing decision?' The research reviews the decision made by each company individually, rather than seeking to provide generalisable conditions for a wide segment of society (Godfrey et al., 2006). The methodology applied will determine which of the factors drawn out of the literature are pertinent to Fiji's context and will help to determine the relative importance of the factors in the development of the South Pacific Stock Exchange. The small size of Fiji's economy makes a comprehensive review of entities contemplating listing possible, something that would scarcely be feasible in larger economies. The case study approach provides room for the qualitative and naturalistic mode of research.

This chapter is structured in the following manner. Firstly, the methodological basis of the research process is outlined. The research method and the justification of the choice of method are then discussed. Next there is a discussion on the data collection method, which is then followed by a summary of the chapter.

3.2 The Methodological Basis of Research

This section identifies the assumptions that underpin stock market development, by using the well-accepted broad framework of Burrell and Morgan. The four paradigms for theories about the social world (Burrell and Morgan, 1979) and the network of basic assumptions characterizing the subjective–objective debate within social science (Morgan and Smircich, 1980) are applied to identify the appropriate research methodology.

All social scientists approach their subject via explicit or implicit assumptions about the nature of the social world and the way in which it may be investigated (Burrell and Morgan

1979). First, there is an assumption of an ontological nature. Associated with this ontological issue is a second set of assumptions of an epistemological nature and associated with these ontological and epistemological assumptions, but conceptually separate from them, is a third set of assumptions concerning human nature and in particular the relationships between human beings and their environment. These three sets of assumptions outlined have direct implications of a methodological nature. Each one has important consequences for the way in which one attempts to investigate and obtain knowledge about the social world. Different ontologies, epistemologies and models of human nature are likely to incline social scientists towards different methodologies.

Morgan and Smircich (1980) list a six-way classification of the nature of social science research and this subjective–objective schema provides a useful basis for developing research in social science. They identify six categories of basic assumptions about ontology, epistemology and human nature. These categories are not perceived as discrete, but as constituting a continuum. Table 3.1 provides a general overview of the social world along the continuum. As one moves from the extreme right to the extreme left on the continuum, the views on reality and society change, ranging from a highly objective and positivist view of reality to a highly subjective view. For the purpose of this research work, the fourth paradigm, reality as a realm of symbolic discourse as one moves from the right to the left of the Morgan and Smircich (1980) framework, is used. This fourth strand allows for some flexibility, there can be some movements between adjacent strands, hence there can be some movement from the fourth strand to the fifth strand where man can be seen as a social constructor, the symbol creator; this is developed later in section 3.2.1.

Table 3.1: **Network of Basic Assumptions Characterizing the Subjective-Objective Debate within Social Science**

	Subjectivist Approaches to Social Science			Objective Approaches to Social Science		
Core ontological assumptions	Reality as a projection of human imaginations	Reality as a social construction	Reality as a realm of symbolic discourse	Reality as a contextual field of information	Reality as a concrete process	Reality as a concrete structure
Assumptions about the nature of organizations (human nature)	Man is pure spirit, consciousness, being—humans are viewed as intentional beings, directing their psychic energy and experience in ways that constitute the world in a meaning-ful, intentional form	Man as a social constructor, the symbol creator—human beings create their realities in the most fundamnen-tal ways , in an attempt to make their world intell-igible to them-selves and others	Man as an actor, the symbol user human—beings are social actors interpreting their mileu and orienting their actions in ways that are meaningful to them	Man as an information processor— human beings are engaged in a continual process of interaction and exchange with their context	Man as an adaptor—human beings exist in an interactive relationship with their world	Man as a responder—a product of the external forces in the environment to which they are exposed
Basic epistemological stance	To obtain phenomenological insight, revelation—knowledge rests within subjective experience—the apprecia-tion of world Phenomenon is seen as being dependent on the ability to understand the way in which human beings shape the world from inside themselves	To understand how social reality is created— to demonstrate the methods used in everyday life to create subjectivity, an agreed or negot-iated social order	To understand patterns of symbolic discourse—emphasis upon how social situations should be researched in a manner that reveals their inner nature. May not be generalizable,but insightful and significant knowledge	To map contexts—emphasis upon importance of understanding contexts in a holistic fashion	To study systems, process, change—emphasis upon the need to understand process and change	To construct a positivist science—emphasis on the importance of studying the nature of relationship among the elements constituting the struct-ure
Some favoured metaphors	Transcendental	Language game accomplishment, text	Theatre, culture	Cybernetic	Organism	Machine
Research method	Exploration of pure subjectivity	Hemeneutics	Symbolic analysis	Contextual analysis of Gestalten	Historical analysis	Laboratory experiments, surveys

(adapted from Morgan and Smircich 1980, p.492)

3.2.1 Fourth Paradigm of the Morgan and Smircich Framework and its Applicability

The fourth paradigm views reality as a realm of symbolic discourse, which sees man as an actor, the symbol user. The emphasis in this category is placed on understanding the nature and patterning of the symbols through which individuals negotiate their social reality.

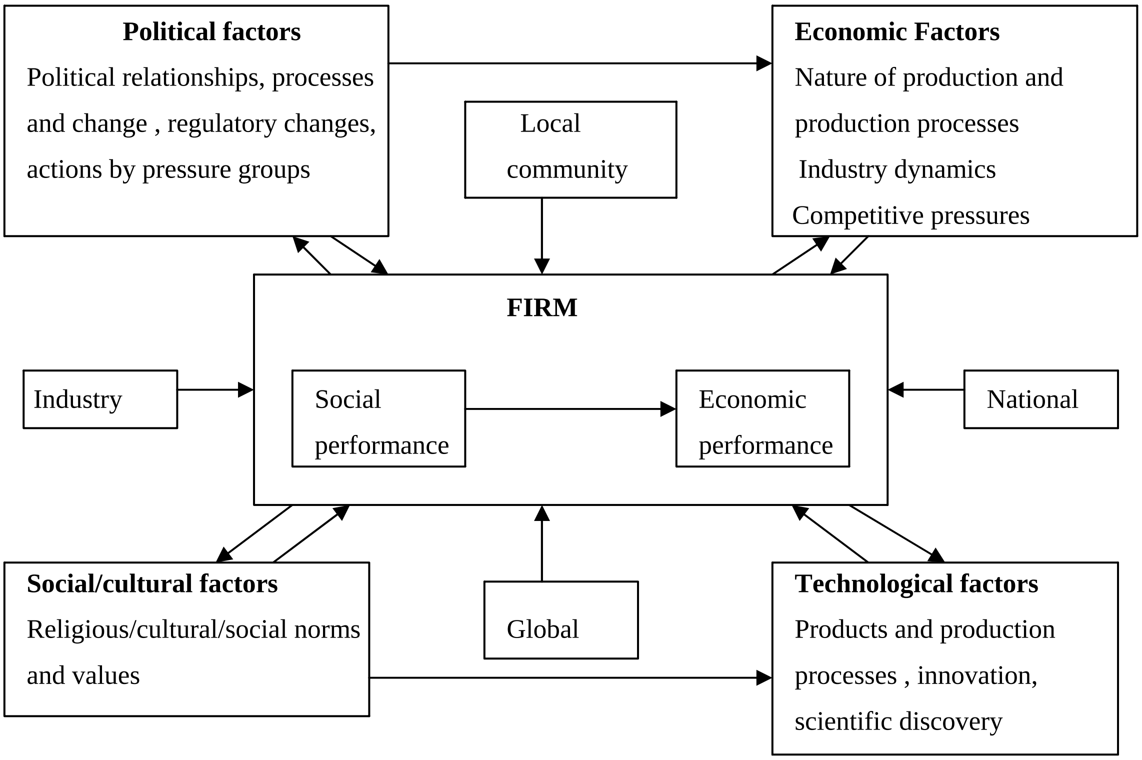
Knowledge is enhanced and further knowledge is gained by understanding the roles that language, symbols and myths play in the shaping of a given reality. Social order is derived not through the status quo but through people's interpretation of reality within a basic stance of negotiations with each other and the development of some shared symbolic meanings, definitions and situations (Tomkins and Groves 1983).

The epistemological assumption involved in this category does not hold that findings obtained would be universally generalizable, but it does regard them as providing nonetheless insightful and significant knowledge about the nature of the social world. The ontological assumption here is that people view the world through the processes of interaction and negotiation, then form impressions through these interactions. Reality is seen not as rules themselves, but as embedded in meanings that people put upon situations, people and events.

The functioning of the stock market is based on the human behaviours existing in a social context and the companies' raising capital through the issuing of the new shares is also based on companies' imaginations and behaviours, where the decision is based not on one person but on a collective process by the people who run the business. This study attempts to gain a deeper understanding of this phenomenon, its context and logic, rather than to develop universal laws explaining the phenomenon. As previously stated the core ontological assumptions in the strand 'reality as a realm of symbolic discourse' is that people view the world through the processes and the interactions and negotiations, then form impressions through these interactions. This study sets out to conduct theory building in the sense that existing knowledge is used in compiling conceptualizations of the listing decisions by companies.

In this research, since the focus is on companies' listing decisions and companies exist in an environment characterized by ever-changing social, political, economic and technological pressures at local community, industry and national levels, as shown in Figure 3.1, the listing decisions will be affected by these factors. In such a situation the relative importance of the issues in the listing decision will vary from entity to entity.

Figure 3.1—The dynamic macro-environment in which companies operate

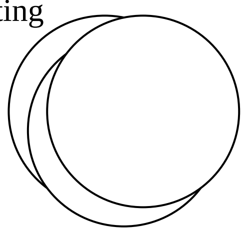


Source : O'Connor , 2004

It is highly likely that in the making of the initial public offering (IPO) decision some of the factors influencing the listing decision that have been identified in the literature will be pertinent to all companies. However, the relative importance of these factors will vary from one decision to another. Occasionally companies may create their own issues or symbols other than those identified in the literature. Companies may identify specific issues that relate to their particular context owing to social, political, economic and technological pressures at a local community, industry or national level, as shown by figure 3.1. For example, the family controlled companies may have family concerns, which may be non-economic in nature. The decision for such companies may be driven by social factors, which are unique to that firm. Pursuing family objectives may or may not be tolerated by external investors. Therefore, these types of companies may give reasons for listing or not listing that would be uncommon in other companies.

This can be illustrated as follows:

Figure 3.2 - Issues Related to Listing Decisions



The Venn diagram in figure 3.2 serves to illustrate that most issues would be common to all companies under study, with some issues that would be unique to each firm.

This shows that understanding the functioning of the stock market involves an understanding of the companies' behaviour, which influences their listing decisions.

3.3 Research Method

Hagg and Hedlund (1979) state that:

> In an area where there is a lack of theory, real difficulties in defining context, more explicit consideration needs to be given to the advantage that case approaches to research and inquiry can offer.

The literature related to stock markets is jurisdiction specific and the scale of Fiji's financial market is such that a prior theorizing on the basis of studies conducted elsewhere is not justified because of the differences in scale. Hence, case studies have been utilized as the research strategy in this work. Yin (2002) states that there are 5 components of a research design that are especially important:

1. the study's question
2. its propositions, if any
3. its unit(s) of analysis
4. the logic linking the data to the proposition, and
5. the criteria for interpreting the findings.

In this study main research questions are: What are the factors leading to the stock market development? How are these factors related to the Fiji context? Why do companies seek to be listed on the stock exchange? This third question merits investigation, because the number of companies seeking listing is a major indicator of stock market development, as also is the rate at which new listings are sought.

The type of research questions focused on therefore are what, how and why, as indicative of the case study research (Yin 1994) and thus this approach is appropriate for this research. This research requires no control over events.

Yin (1994) provides a thorough definition of a case study. According to him a case study is an empirical inquiry that investigates a contemporary phenomenon within its real life context, especially when the boundaries between phenomenon and context are not clearly evident. The case study method is chosen, in order to cover contextual conditions— believing that they might be highly pertinent to the phenomenon under study. The case study as a research strategy comprises an all-encompassing method, with the logic of design incorporating specific approaches to data collection and to data analysis.

Case studies usually concentrate on single entities or units, be it a single individual, or a group as a single unit. The findings can be contextualized and the research can be quantitative, qualitative or both and case studies are usually undertaken for exploratory purposes (Robson 1994) .

Scapens (1990) argues that the distinction between types of case study is not always clear-cut. An exploratory study that develops initial ideas can form the basis of future explanatory work. Furthermore, Otley and Berry (1994) point out that the idea of an exploratory case goes beyond that of mere description towards explanation. This study, by looking at how, why and what questions, seeks to gain an understanding of why companies choose to go, or not to go, public, as positive listing decisions are a dimension of market development and this is the primary focus of this research. By exploring the literature and then providing an explanation of how the SPSE has developed over time, that is, what are the factors that drive its development, the study also shows how other emerging stock markets have developed.

This research focuses mainly on ‘what’ questions, such as “what are reasons for companies to list on the stock exchange”, “what are the reasons for companies to decide not to list on the stock exchange”. Questions of this type provide a justifiable rationale for conducting an exploratory study. Therefore the research strategy that will be employed will be an exploratory case study, the goal being to determine the reasons for companies deciding to list, or not to list, on the stock exchange.

This method therefore enables the study of naturally occurring real-life situations, using individual cases. Case study/grounded research looks at the listing decision on an individual rather than a collective basis and the justification of the naturalistic method lies in the in-depth evaluation of the listing decisions made by each of the small number of relevant companies. Given the size of Fiji's economy, facilitating individual listing rather than creating an environment that enhances listings in general may be the appropriate way to develop the market. Fiji's stock market is a small market. To date there are only 16 listed companies and it is less liquid compared to the developed markets. For example, the ratio of the value of trade to stock market capitalization (liquidity) for the year ended 2004, in comparison with developed as well as some developing markets, is low, as shown in table 3.2.

Table 3.2 Liquidity of Some Developed and Developing Economies as of December 2005

Country	Liquidity ratio
New York Stock Exchange	0.83
Hong Kong Stock Exchange	0.51
New Zealand Stock Exchange	0.38
Australia	0.40
Thailand	0.10
Taiwan	0.17
Fiji	0.014

Source ;www.fibv.com/publications/equity104.pdf

The type of research question posed, the extent of control an investigator has over actual behavioural events and the degree of focus on contemporary events are the necessary conditions for research that is suited for case study work. "What" type of research questions suit exploratory case studies while "How" and "Why" questions are used for explanatory case studies (Yin 1994).

3.4 Data Collection

The SPSE is the only bourse in the country. It is therefore the data source for the records of the number of companies listed, capital raised, turnover traded and volume of business. Therefore it is going to act as the data source for this research. The period of the study will be from June 1996 to December 2005, as the formal trading in the SPSE began from 1996.

With regard to the question of why companies go public, specific companies had first to be selected as cases, with the help of the SPSE, which engages with all companies that are seriously contemplating the listing decision. The pertinent people to interview in each company were identified through the Stock Exchange, which also facilitated the contacts.

The IPO prospectuses prepared for companies being listed provided another source of data. The prospectuses are the only source that allows identification of the ownership structure of these companies before they went public. Some companies that were thinking of making an IPO but then did not go ahead were also studied, to find out what caused them to draw back. Attention was directed only to companies that have at least a minimal probability of listing as they had entered into some form of dialogue one time with the SPSE on the issue.

To measure the total volume of trade, use has been made simply of the number of shares traded; and for market capitalization, of the number of its issued shares multiplied by the market price. Data from 1996 to 2005 have been used to study the trend of volume traded and market capitalization, which gives an indication of the stock market development at a descriptive level.

The stock market liquidity is measured in two ways. First, the ratio of total value traded to GDP would be computed. This ratio measures the value of equity transactions relative to the size of the economy. Secondly, the ratio of the total value traded divided by market capitalization is computed. This ratio, frequently called the turnover ratio, measures the value of equity transactions relative to the size of the equity market. These two indicators do not directly measure how easily investors can buy and sell securities. However, they do measure the degree of trading in comparison to the size of both the economy and the market. Therefore they positively reflect stock market liquidity on an economy-wide and market-wide basis.

In order to assess how privatization influenced the development of the stock market a study was conducted in two stages, the first examining the effects of privatization on the stock market as a whole. The second was the analysis of the key features of market capitalization, trading volume and liquidity just after privatization, and also the privatization effects on the shareholder numbers generated by the privatization program. The SPSE acted as the data source for this.

The fieldwork was conducted by face-to-face interviews based on a semi-structured questionnaire, supplemented by open-ended discussions on topics raised by both the interviewer and the interviewees. Hodge (2003) suggests that survey based research can provide a complement to the archival based research in that it gathers data on a multitude of individual beliefs and practices to provide the underlying reasons of companies' decisions regarding listing on the stock exchange. Specifically, the face-to-face interviews based on a semi-structured questionnaire provide an insight into what individual companies feel about their decisions for listing.

The semi-structured questionnaire was designed after an extensive examination of the extant literature so that the survey includes what previous studies identified as the reasons behind listing and not listing on the stock exchange. This provides the opportunity to find out whether the reasons given by companies in Fiji are the same as those found elsewhere, or whether there are reasons that are specific to Fiji.

3.5 Summary

This chapter discussed the methodological framework and the research methods used in the research. There is also a discussion of the details of the data collection methods employed in this research. The chapter shows that an in-depth analysis of why companies get listed is required. The case study method provides an appropriate research technique to investigate this problem and a semi-structured questionnaire was chosen as an appropriate research instrument.

Chapter Four

Fiji's stock market (South Pacific Stock Exchange (SPSE)) – an assessment

4.1 Introduction

Fiji's stock market was set up as a trading post from 1979 and it began operating as a market in 1997. The call market was introduced on 1st July 1996, initially being called three times in a week. The market operated through market officials verbally calling for orders on each particular security, the brokers then shouting their orders. From 2003 the market has been called five times a week, i.e. Monday to Friday. The stock market has a key role to play in promoting Fiji as a financial service centre of repute[8]. It has become quite obvious that having a domestic stock exchange is one of the major attributes that sophisticated financial services players look for when making their investment decisions, as this increases efficiency in trading (Bonnici 1997). The stock exchange provides a market for motivated buyers and sellers of shares. Fiji's stock market, the South Pacific Stock Exchange (SPSE), is not a highly liquid market though liquidity is improving over time. In absolute terms, the exchange has made some progress. As at the end of December 2005, the number of listed companies has grown from four in 1996 to sixteen, the market capitalization increased from F$M114 to F$M1 025 and the volume of trade, from $0.2m to $7.8m over the same period. In order to bring more development to the stock market, the exchange must meet a number of challenges. These include increasing public awareness about the operation of the SPSE, relooking at the stringency of listing rules, finding ways to encourage more listings and focussing on staff training and staff retention as there is a high level of staff turnover to improve the operation of the SPSE.

This chapter is structured in the following manner. The next section provides a discussion on why there is a need to establish stock exchanges followed by a discussion of the Fiji stock market's trading system. Then an in-depth discussion on the creation of Fiji's stock market follows, after which an analysis and overview of the development of Fiji's stock market since the commencement of its formal operation is provided. The subsequent section presents an analysis of the trends in the market performance of the stock exchange. Finally, a summary of the chapter is provided.

[8] While SPSE is a regional exchange, only shares in Fiji based companies are currently quoted.

4.2 The Establishment of Stock Exchanges

4.2.1 Definition and History

The stock exchanges of the various countries can be understood as organizational innovation (Larson 2004). The process of organizational innovation has been studied and theorized by both sociologists and economists. Neo Institutional Economist, (Williamson, 1975, 1981, 1994) extends ideas from neoclassical economics to predict that new organizations are created as efficient solutions to particular problems faced by the economic actors. In the case of a stock exchange, the explanation would centre on transaction costs. There are two primary sets of transaction costs that could be minimized by the development of an exchange. First, by providing a centralized place for motivated buyers and sellers of shares, an exchange reduces costs associated with trading of securities. No longer would one have to advertise, attempt to find a counter-party, or spend time to determine a reasonable price, since all parties are able to meet in one location and the price is determined by the market. Since investors will be able to sell their investments through the exchange, they face a smaller risk and, therefore, will require a smaller risk premium to invest. Consequently, the reduced costs facilitate capital raising by companies and thus reduce the cost of capital for these companies.

A stock exchange is then simply a market where stocks, shares and other marketable securities may be bought and sold. Its primary function is to facilitate a company raising money (capital) through the issue of new shares to the public. The exchange's secondary function is to provide a regulated market for the trading of existing shares between investors. While it is not possible to state exactly when the first stock exchange was started, there is some evidence that the Dutch were the first people to trade in stocks, as there exists a lists of stocks that were being traded in Amsterdam as far back as 1585 (Kimura and Amoro 1999). Britain was the second country to engage in the trade of stocks and this was towards the end of the seventeenth century.

In the United States of America, before the American War of Independence, most capital financing and securities arising therefrom were handled in the London stock exchange. The outbreak of the war of independence cut off access to the British capital market leading to the establishment of separate stock exchanges in America. This then marked the beginning of modern stock exchange markets, as we know them today. From these humble beginnings, they continued to spread to other countries in the World until they reached the level and state with which we are now familiar.

4.2.2 Rationale for the Existence of Stock Exchanges

The promotion, establishment and successful operation of an organized market for securities requires certain conditions to exist, namely:

- a considerable volume of securities whose ownership is widely distributed. This implies that there has to be some degree of industrialization and commercialization and there is a need for the presence of fairly large companies
- a sufficient number of people wishing to hold their savings in the form of financial assets rather than in business or real property
- a soundly functioning tax system to attract listing on the stock markets and
- a significant degree of long-term political and economic stability, which is seen as a prerequisite to social and therefore economic cohesiveness of any country.

The South Pacific Stock Exchange (SPSE) is the only stock market in Fiji. The IPO process exists to provide a link between companies needing funds to expand and people with funds to invest. Additionally, the exchange provides a facility for trading shares at the current market price. This trade is satisfied by demand and to some extent by the supply forces in the market because there have been instances where unexecuted buy orders have continually outnumbered unexecuted sell orders. The creation of the SPSE and its development are discussed in detail in the next section.

4.3 Creation of Fiji's Stock Exchange

Discussion concerning the creation of a stock exchange in Fiji began in 1970, shortly after Fiji's independence from Great Britain. Since then the Fiji Development Bank (FDB) had intended to provide a marketplace for the exchange of company and government securities. The idea was to serve the commercial interests of the Fiji Islander business community. It could not set up an exchange any earlier than 1978 because it lacked the expertise. Even if a securities market were established, the directors of FDB envisaged operational problems because of the lack of stockbrokers in Fiji. The presence of stockbrokers is essential for an exchange proper. Moreover, a dilemma as to whether to list only Fiji public companies or also shares of overseas companies hindered the progress towards an exchange.

In 1970, the managing director and a solicitor of the bank began studying the bank's Ordinance to ascertain whether the FDB was legally empowered to operate a stock exchange. These officials also devoted much effort to reviewing the *Sydney Stock Exchange Listing Manual*. Then in 1971, the FDB sent its assistant manager to study the Sydney and Melbourne stock exchanges and obtain advice from their officials; the manager submitted a report to the board of directors towards the end of the same year.

Initially, the directors of the bank aimed for a small brokerage service, which would entail construction of a trading board on which current prices for shares in local public companies would be quoted. However, after reading the manager's report, the directors were convinced that a bigger and more organized share market was needed. One of the recommendations of the assistant manager was that after the exchange was operating well, the control of it should be passed to the local brokers (*Fiji Times* 2 February 1972). After some initial groundwork, the managing director and the solicitor of the bank moved to negotiate with the government and the Central Monetary Authority (CMA).

The government began considering the idea of a stock exchange in 1970, when it received the first proposal from the FDB. At the time, the government decided to defer the proposal, but agreed to include the objective of establishing an exchange to provide facilities for the sale and purchase of shares and other securities within Fiji in the seventh development plan, for the period 1976—1980. The government actually became involved in 1972 when it commissioned a leading Australian stockbroker, A.L. Shilton, who submitted a report to the government in the same year.

The report was subsequently considered by the members of the Trading Post Committee established by the government in late 1972, and the committee decided not to commence activities at that stage (Guthrey 1978). According to the press at the time, the government decided to defer any immediate action for the following reasons:

- the lack of local stockbrokers and management expertise to serve on the Exchange Committee. The government did not want to see a situation where the committee was composed entirely of non-citizens
- the government intended to seek further advice from a team of Asian Development Bank (ADB) consultants, who were assisting the government in reorganizing the Fiji Development Bank in early 1973 (*Fiji Times* 6 March 1973).

In 1973 the ADB experts carried out a brief study of the subject and submitted a report to the government in the following year.

Early in 1978, after the completion of discussions with the government and the CMA, the directors of the FDB decided that the time was appropriate to look at the establishment of a trading post more seriously. They formed a steering committee comprising of the following members:

- the managing director, the deputy managing director and the accountant for the FDB
- the Registrar of Companies (or nominee)
- the Permanent Secretary for Finance (or nominee)
- the general manager of the CMA (or nominee)
- a partner from the FDB's solicitor.

The task of the committee was to prepare a set of guidelines for the formation and operation of a stock exchange.

Following press news that the manager of the Fiji Property Centre Limited proposed to commence operating the Stock Exchanges of Fiji Limited, the directors of FDB moved forward and registered the name of Suva Stock Exchange (SSE) in order to reserve it for the government (FDB Board Paper No.3). In August 1978 the FDB Board convened a meeting to discuss:

- the establishment of a trading post to operate as an interim intermediary between FDB as a seller of some of its existing shares and the public as the buyers
- the appropriate procedures and systems for the post
- the appropriate fee to be charged for completed transactions
- the process of forming a limited liability company in the registered name.

The meeting concluded after agreeing to prepare a discussion paper on the proposed trading post for submission to the steering committee.
The managing director of FDB prepared the discussion paper, which included the following recommendations:

- the FDB to subscribe $20,000 initial capital to the SSE and to absorb losses incurred in the initial stages
- the government to meet the initial setting up costs of stationery and the like
- the FDB to provide the management support and to charge the cost of staffing to SSE
- the directors of FDB to report on exchange activities to the FDB board each six months
- the FDB to register the Suva Stock Exchange as a limited liability company (FDB Board Paper No.9).

In the late August 1978 meeting, the FDB Board accepted the discussion paper and approved it for submission to the steering committee. In a meeting held 7th September 1978, the committee recommended the formation of a board for the Suva Stock Exchange. It suggested that the SSE Board should be composed of all the members of the steering committee plus a member of the FDB board and the president of the Fiji Institute of Accountants. The inclusion of directors from outside FDB was intended to bring breadth to the meetings and to allay thoughts that the SSE might be too FDB-dominated.

With regard to the suggestion to establish a registered limited liability company, the committee found out that Section 335 of the Companies Ordinance placed restrictions on advertising shares for sale. The apparent importance of press publicity of shares for sale led the committee to seek advice on ways of bypassing the limitations of the Companies Act. To this end the committee consulted the bank's solicitors, the Registrar of Companies and the general manager of the CMA. The outcome of the consultations was that amendments would be sought to:

- Section 335 of the Companies Act so as to exclude the Suva Stock Exchange
- the FDB Act, specifically to allow the bank to operate a stock exchange with powers to advertise shares for sale.

Accordingly, the committee wrote to the Minister for Finance requesting the amendments. The committee proposed the incorporation of a new clause, under Section 17 of the FDB Act, along the lines:

The Fiji Development Bank shall establish, manage and control an enterprise empowered to act either as principal or agent in the sale and purchase of stocks, shares, bonds, debentures and other securities. (FDB Board Paper No.13)

In September 1978, Cabinet approved Bill No. 24 of 1978 to broaden the FDB's powers and roles. The Bill empowered the bank or its subsidiaries to deal in shares, stocks, debentures, Treasury bills and other securities, and it exempted FDB from Section 335 of the Companies Act (*Fiji Times*, 9 November 1978). In October 1978, the government formally gave its consent and instructed the bank to establish the stock exchange.

The Suva Stock Exchange was incorporated as a limited liability company under the Companies Act on 9th November 1978. The initial capital of $20 000 was fully subscribed by the Fiji Development Bank. The first board meeting of the SSE Limited was held on the day following the incorporation. In the meeting it was agreed to expand the board membership to ensure independence. The board agreed to retain previously appointed SSE board members and include two additional representatives, one each from the Fiji Manufacturers Association and the Fiji National Provident Fund.

The board also provided the bank with a mandate to begin operating a trading post as an interim measure before an exchange proper was set up. By mid-November 1978 the FDB had commenced operating a trading post. The SSE board of directors decided to begin with an elementary operation instead of a structured exchange because they did not anticipate any large scale trading at the initial stage. This was apparent from the fact that out of about 100 registered public companies only three had applied for listing on the exchange. The SSE received public notice in the Fiji Times as “Fiji’s first organized stock exchange” by listing three companies in 1979. Unlike traditional stock exchanges, the SSE operated as a trading post, offering only a slight modification on the bulletin board that had been used previously. There were no stockbrokers. Investors gave the stock exchange any orders to buy or sell particular shares. Once a week, the officer of the stock exchange would take all the orders entered in a logbook and determine if any buying and selling orders matched.

Shortly after the inception, the trading post performed a key role in a new issue of shares by the Tourist Corporation of Fiji Limited. The issue was underwritten by the following institutions:

New Zealand Insurance Limited	$100 000
Queensland Insurance Limited	$ 25 000
Fiji Development Bank	$ 25 000 (FDB Board Paper 7)

The SSE Limited officially commenced operations on the 19th June 1979. In the transition period between the trading post and the SSE Limited three more public companies sought listing on the exchange. At the time of inauguration there were six listed companies. The names of the listed companies, their respective amounts of issued and fully paid up capital and the names of the largest shareholders at the date of inauguration are given in the table 4.1.

The first publication of the Stock Exchange’s security transactions was made in the local newspaper on 30th June 1979. Table 4.2 shows the trading details for the month of June. As can be seen from the table, the market had a very slow start: there were only two trades in that month.

Table 4.1

The First Six Listed Companies With Their Capital, Dividend and Shareholder Information

Name of Company	**Issued and Paid up Capital F $**	**Par Value F$**	**Dividend Ratio (%)**	**Largest Shareholders**
Burns Philp (SS) Co. Ltd	9 999 515	1.00	17.5	B P Co. of Sydney =87%
Fiji Sugar Corporation Ltd	37 000 000	0.50	10.0	Fiji Government
Fiji Industries Ltd	1 265 133	1.00	12.0	B P (SS) Co. Ltd. of Australia and Kandos
Fiji Insurance Company Ltd	1 634 037	1.00	12.5	New Zealand Insurance Co. Ltd = 69% and Hong Kong Insurance Co. Ltd = 25%
Fiji Property Centre Ltd	n.a	n.a	n.a	n.a
Tourist Corporations Fiji Ltd	n.a	n.a	n.a	Transholding Group of New Zealand Ltd = 100%

Source : 1. Annual Accounts 1979

2. Fiji Times, 9 October 1978

Table 4.2

Suva Stock Exchange – Trading Details for June 1979

Securities	Par Value	Quotes Buyer	Seller	Last Sale Price	Volume
	F$	F$	F$	F$	
B P (SS)Co.Ltd	1.00	1.85	-	-	-
Fiji Industries Ltd	1.00	-	1.65	1.65	1 000
Fiji Insurance Company Ltd	1.00	-	-	-	-
Fiji Property Centre Ltd	1.00	-	-	-	-
Fiji Sugar Corp.Ltd	0.50	-	-	-	-
Tourist Corp.Fiji Ltd					
Ordinary shares	1.00	-	-	-	-
Convertible Notes	1.00	-	1.00	1.00	100

Source: Fiji Times, 30 June 1979

There were not many shareholders and publicly owned companies in Fiji in 1979. After independence, the number of shareholders in public companies increased markedly. For example, the number of Pacific Islanders holding shares, in Burns Philip (South Seas) most of who were in Fiji, had increased ten fold by the end of the1970s.

In the 1980s and 1990s, the government of Fiji emphasized capital market development as a component of economic policy, reflecting the increasing prevalence of these markets worldwide (Helleiner 1994).

In 1992 a consultant report funded through the Asian Development Bank recommended strengthening the SSE to enable it to play a more active role in Fiji's financial structure. The report described the SSE :

> as one of the most unique market places in the world. Of its weaknesses, it can be said that it lacks the chief characteristics of a listed exchange market. It is apparent that much needs to be done to institutionally strengthen the SSE to bring it in line with the conventional stock exchanges of the world in general and make it play a more active role in promoting the capital markets in Fiji, in particular. (Namasivayam 1992:10 –12)

This report evaluating the SSE by the standards of "conventional stock exchanges" found its structural characteristics lacking. The underlying thrust of the report was that bringing the SSE more in line with the traditional stock exchange would result in the exchange having a more positive impact on the country's economy.

Following the advice offered in the consultant's report, and as part of the effort to spur capital market development in Fiji, the SSE transformed itself from a trading post to an open outcry stock exchange, with a trading floor and stockbrokers and launching its operations on 1 July 1996. In the same year Fiji passed the Capital Markets Development Authority Act, number 13 (CMDA Act), creating the Capital Markets Development Authority (CMDA). In December 2000, the name of Fiji's stock market was changed from the Suva Stock Exchange (SSE) to the South Pacific Stock Exchange (SPSE), thus opening up its operations to allow for other companies and investors in the South Pacific. Because it was the only market in the South Pacific, Fiji would greatly benefit by its offering the local investors a wider choice of investment and at the same time allowing investors from neighboring countries to invest in local companies.

4.4 Trading Systems

Stock markets can be differentiated by their trading systems. These trading systems vary in the way transactions are handled, type of transactions made, type of information available to market participants, and the process of matching sell and buy orders (Glen 1994).

Trading systems can be classified by the method of matching the orders, i.e. periodic vis-a-vis continuous market, and also by the presence of a continuous system known as electronic markets, open 24 hours a day. In a periodic call auction market, orders are accumulated for simultaneous clearing at a predetermined time and at a common price. Continuous markets allow investors' orders to be executed immediately upon arrival. In a continuous auction market (order driven market) investors' orders are executed through an auction process one by one upon placement, such that prices are determined multilaterally. In some markets, for example the New York Stock Exchange (NYSE), there is a specialist who posts the bids and offers. Most of the emerging markets with a continuous auction do not have a specialist, such that trades are accumulated for execution on prices determined when the market opens for trading. In a continuous dealership market (quote-driven market) investors trade immediately with a market maker so that each order is satisfied separately by a single dealer, who does not know the orders received by other dealers.

The literature indicates that an auction market is more efficient than the continuous markets, with its ability to enhance liquidity and reduce market volatility (Madhavan 1992). This is because a call auction imposes an effective mechanism for dealing with asymmetric information problems, where the imposed delays in execution of trades forces traders to reveal information through their order placements (Comerton-Forde 1999). Prices in continuous auction markets are inefficient and more volatile. However, with immediacy in order execution, market liquidity is higher.

Garman (1976) observes an evolutionary pattern in the adoption of trading systems, by noting that US stock markets evolved from a call market (trading synchronously at pre-established discrete times) to a continuous market (trading asynchronously during continuous intervals of the time as growth in the volume of transactions was realized. A similar pattern is emerging in the developing markets, where there is a continuous shift from the periodic call auction system to more frequent trading with a continuous auction system.

While the developed market trading systems tend to be demand driven due to the highly liquid stocks in these markets, the emerging markets have adopted trading systems in anticipation of growth. For instance, the Polish stock exchange, which is at the developing stage, for those stocks that were highly liquid the trading system, was changed from call auction to continuous trading. Trading on the SPSE happens through a centralized call auction market system five days a week. Orders for the share trading are processed in price–time priority. Orders to buy at higher prices have priority over those at lower prices, while orders to sell at lower prices have priority over those at higher prices. If orders to buy or orders to sell are at the same price, the order that was placed earliest enjoys priority. All these show that stock exchanges change their trading structures to improve trading opportunities for their listed stocks. Usually the introduction of a continuous trading system and a shift of stocks that were previously traded in a call auction to this new system depends on the context in which the market operates.

4.5 The Development of Fiji's Stock Market Since 1996

The table 4.3 shows the share trading statistics from 1996 to 2005

Table 4.3 Share trading on the South Pacific Stock Exchange, 1996-2005

	1996	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**
No. of Listed Companies	4	8	9	9	10	14	15	15	16	16
Market Capitalization ($FM)	114	144	175	214	243	275	769	748	882	1 024
No. of trades	59	170	470	572	608	694	651	588	881	974
No. of shares traded (M)	0.2	2.1	4.6	3.4	2.5	2.6	6.8	3.6	7.8	5.9
Value of trade ($FM)	0.4	2.9	9.7	4.9	8.1	4.4	7.1	4.3	12.7	7.9

Source: South Pacific Stock Exchange

Critical to the development of a thriving stock market in Fiji, there is a need for an increase in the number of companies listed on the stock exchange and a corresponding increase in the numbers of the shares available for trading.

For listing in Fiji there are certain procedures to follow and the sequencing of these procedures will depend on the approach that the companies have adopted to listing.

The main requirements of listing include the following:

- obtain CMDA approval to list by submitting a proposal keeping within the provisions of the CMDA Act. The Authority's decision will be conveyed to the company within 15 working days
- obtain SPSE approval to list by submitting two copies of the "application to list" to the Exchange for its evaluation and decision
- submit the company's draft prospectus of information memorandum, which contains information about the past operations of the company, to CMDA and SPSE for their respective approvals

- together with the application, submit to the SPSE two copies of the company's Memorandum of Association and Articles of Association and application fee
- once approved, the company must supply the SPSE with the final printed copies of the prospectus and applications at least 5 market days before the opening to list
- in the case of a public offering prior to listing, the company shall announce the basis of allotment of shares in at least one leading national newspaper. The company shall issue the shares following the announced allotment
- the company will then be listed to the stock exchange and the active trading of its shares can begin.

Table 4.3 shows that over the years there has been an increase in the number of listed companies and a corresponding increase in the market capitalization as well as an increase in the number and value of shares traded.

In 1997 there were 8[9] listed companies compared to 4[10] in 1996. Fiji Television Limited made a public offering of its shares on 6th May 1996, offering 3.1 million shares to the public at $1.00 each, representing 30% of the paid up capital of the company. The company sold 2.2 million shares. The issue was underwritten by Fiji Development Bank, who purchased the under-subscribed shares. The company was listed on the SSE on 24th April 1997. In addition to this, the Rice Company of Fiji Limited (RCF) made a public offering of its shares at $0.50 each, representing 25% of the paid up capital of the company. The issue was fully subscribed. Flour Mills of Fiji, which is the holding company of RCF, underwrote the issue and the company was listed on 20th January 1997.

The total stock market capitalization as at 31st December 1997 was F$144 million compared to F$114 million at the end of 1996. This represented an increase of approximately 26%. The numbers of shares traded in 1997 were close to 2.1 million, which represented an increase of approximately 950% over 1996, when only 0.2 million shares were traded.

[9] Fiji Sugar Corporation, BPT (South Sea) Company Ltd, Flour Mills of Fiji Ltd, South Pacific Distilleries, Rice Company of Fiji, Fijian Holdings Ltd, Carlton Brewery Fiji Ltd,and Fiji Television Company Ltd.
[10] Fiji Sugar Corporation, BPT (South Sea) Company Ltd, , Flour Mills of Fiji Ltd, and South Pacific Distilleries.

Table 4.4 shows that in 1998 there were nine[11] companies listed on the Suva Stock Exchange compared to the eight listed in 1997. Atlantic & Pacific Packaging Company Ltd (APP) made a public offering of its shares on 22nd June 1998. It offered 3.2 million shares to the public at $0.50 each, representing 30% of the paid up capital of the company. The issue was fully subscribed. Flour Mills of Fiji Ltd, which is also, the holding company of Atlantic & Pacific Packaging Company Ltd, underwrote the issue and this company was listed on 17th August 1998. The total market capitalization as at 31st December 1998 was F$175 million, compared to F$144 million at the end of 1997. This represented an increase of approximately 22%. In 1998, close to 4.6 million shares were traded, representing an increase of 92% over 1997 when 2.4 million shares were traded.

Table 4.4 Trading Statistics for the year 1998

Company	No. of Trades	No. of Shares Traded	Share Price($)	Market Capitalization
APP	28	37 470	0.70	5 600 0000
BPT	12	34 202	2.15	39 362 617
CBF	17	5 825	17.30	34 600 600
FTV	18	*1 519 600	1.03	10 609 000
FMF	44	84 362	3.95	23 700 000
FSC	67	446 693	0.55	24 419 999
RCF	48	80 559	1.20	7 200 000
SPD	100	#1 763 625	4.00	8 413 900
FHL	136	625 513	2.00	20 929 300
Total	**470**	**4 597 849**		**174 834 816**

*Includes a transfer of 1 442 000 shares from Fiji Development Bank to Yasana Holdings Ltd.

#Includes a purchase of 1 625 000 shares from FSC by CBF.

Source: South Pacific Stock Exchange. Information as at 31 December 1998

In 1999, as shown in table 4.5 there were nine companies listed on the stock exchange, which was the same as the previous year. The total market capitalization as at 31st December 1999 was F$214 million compared to F$175 million in 1998. This was an increase of 22%.

[11] Fiji Sugar Corporation, BPT (South Sea) Company Ltd, Flour Mills of Fiji Ltd, South Pacific Distilleries, Rice Company of Fiji, Fijian Holdings Ltd, Carlton Brewery Fiji Ltd and Fiji Television Company Ltd, Atlantic, and Pacific Packaging Company Ltd.

In 1999 close to 3.4 million shares were traded, representing a decline of 26% compared to 1998, when 4.6 million shares were traded. In 1998,1.6 million shares were traded in the takeover of South Pacific Distilleries Limited by Carlton Brewery Fiji. After removing these trades from the statistics, the number of shares traded grew by 13.3%.

Table 4.5 Trading Statistics for the year 1999

Company	No. of Trades	No. of Shares Traded	Share Price($)	Market Capitalization
APP	55	1941 908	1. 06	8 480 000
CBF	20	18 525	23.00	46 000 000
FTV	44	1 418 044	1.15	11 845 000
FMF	22	40 215	5.20	31 200 000
FSC	74	552 031	0.75	33 299 998
RCF	31	61 125	1.90	11 400 000
SPD	19	15 725	5.75	12 094 981
FHL	274	1 023 168	2.01	21 033 974
TTS	33	57 272	2.75	38 588 556
Total	**572**	**3 381 013**		**213 942 482**

Source: South Pacific Stock Exchange. Information as at 31 December 1999.

At virtually every call market session during the year, buy order demand substantially exceeded the available supply of securities. At the beginning of 1999 it was anticipated that the privatization of government owned enterprises and sale of shares to the public would improve the supply of shares and aid development of the capital markets. However, there were no privatization offerings made during the year.

In 1999 the SSE invested heavily in upgrading its image by expanding the facilities, to allow the SSE to have the potential to handle a substantial increase in business volume as the market develops. It also embarked on an ambitious program to upgrade the skills and expertise of its staff and of the capital markets community in general. The problem that was facing the SSE in this period was its lack of profitability, which was generally related to the lack of shares available for investment or simply that it could not reach the break even level of operations.

CMDA, which was actively pursuing a public awareness campaign to expose companies to the benefits of raising capital by going public and listing on the stock exchange, made presentations to company founding shareholders and executives on using the public markets to raise capital and the benefits of listing on the stock exchange.

As table 4.6 shows, in the year 2000 there were ten[12] companies listed on the SPSE. The most significant development of the year was when Fiji Care Insurance Ltd undertook a compliance listing on the South Pacific Stock Exchange on 7th December 2000, quoting its 3 787 528 ordinary shares. This was the first listing in over two years and this showed that there are opportunities under the prevailing market conditions for directors to enhance shareholder value. This was evident in Fiji Care's case where, by the close of trading for the year, its share price had increased by just over 18% ($0.10) compared to the pre-listing private placement price. In the first quarter of 2000, trading at the SPSE continued the momentum gained towards the end of 1999. However, there was active selling immediately after the political upheaval sparked by the events of May 19th because of the increased disposition among local investors in stocks to emigrate. In addition to this, factors such as the migration of many potential as well as current investors[13] would reduce trading activity. The most geographically mobile sector of the community is the professional class, a group with the resources and disposition to invest in financial assets. An empirical study by Gani and Ward in 1995 showed that political instability in Fiji had at that time been the motivating factor behind migration. The coup of 2000 would have provided an added impetus to the migration trend. But then the prices stabilized before the end of 2000, with increasing trading volumes noted, as the institutional investors sought to take advantage of the lower prices (CMDA 2000 Annual Report).

Market capitalization at the end of the year incorporating the new listing was F$243 million, which was an increase of 13.6% over 1999. Subtracting the effect of newly listed securities, the stock market, despite a difficult year, was able to create new wealth for listed company shareholders. CMDA organized a series of workshops to teach companies and

[12] Fiji Sugar Corporation, BPT (South Sea) Company Ltd, Flour Mills of Fiji Ltd, South Pacific Distilleries, Rice Company of Fiji, Fijian Holdings Ltd, Carlton Brewery Fiji Ltd Fiji Television Company Ltd, Atlantic and Pacific Packaging Company Ltd and Fiji Care Insurance Ltd.

[13] Migration figures depict the outflow of Fiji citizens: 1997, 4 493; 1998, 4 829; 1999, 4 837; 2000, 5 275; 2001, 6 537; 2002, 5 480; and 2003, 5 771 (Fiji Migration Statistics 1997-2003).

intermediaries how to take advantage of the opportunities offered by the capital markets. Workshops were also organized to help companies planning to list in future, to prepare for and manage the listing process.

Table 4.6 Trading Statistics for the year 2000

Company	No. of Trades	No. of Shares Traded	Share Price($)	Market Capitalization
APP	23	58 564	0.70	5 600 000
CBF	39	17 633	25.00	50 000 000
FHL	325	880 485	3.10	32 440 415
FIL	22	89 000	0.65	2 461 893
FMF	48	924 514	1.45	43 500 000
FSC	15	66 106	1.35	13 905 000
FTV	58	425 915	0.45	19 979 999
RCF	13	17 626	1.75	10 500 000
SPD	6	5 250	5.95	12 515 676
TTS	59	42 046	3.70	51 919 147
Total	**608**	**2 527 139**		**242 822 130**

Source: South Pacific Stock Exchange. Information as at 31 December 2000.

During 2001, as shown in table 4.7, the trading in the stock market fell in terms of value traded by F$3.7 million (46%) compared to the previous year. This was despite an increase in the number of listed companies. This could have been due to the “wait and see” attitude of investors arising out of the country’s uncertain political and economic climate that prevailed for most of the year at least until the general election and return to Parliamentary rule in September. In making comparisons with 2000 it must be also be borne in mind that the higher volume of trading in 2000 was at least in part due to panic selling on the part of some of the investors. However, there was an increase in the number of shares traded by 4% during 2001. This could have been due to the 4 new listings during the year, namely, Pacific Green Industries (Fiji) Limited (PGI), RB Patel Group Limited (RBG), Vishal Bharteeya Company Limited (VBL) and Communications (Fiji) Limited (CFM).

The market capitalization at the end of 2001 was F$275 million, 13% higher than at the end of 2000. This was reflective of the new listings during the year. Throughout the year, the number of unexecuted orders on the SPSE trading board remained the same. On average there were 35 sell orders and 25 buy orders on the board. However, as the year progressed more buy orders emerged.

Table 4.7 Trading Statistics for the year 2001

Company	No. of Trades	No. of Shares Traded	Share Price($)	Market Capitalization
APP	32	124 426	0.58	4 640 000
CBF	26	15 079	26.85	5 370 000
CFM	7	34 000	1.16	3 770 580
FHL	270	344 143	2.80	29 01020
FIL	31	89 053	0.70	2 651 270
FMF	44	375 455	1.53	45900000
FSC	12	73 290	0.35	15540000
FTV	45	562 710	1.58	16 274 000
PGI	39	126 500	1.94	13 534 171
RBG	147	810 939	1.00	30 000 000
RCF	8	10 025	1.50	9 000 000
SPD	17	19 700	6.85	14 408 804
TTS	11	43 103	2.50	35 080 505
VBL	5	2 500	1.28	768 000
Total	**694**	**2 630 923**		**274 568 350**

Source: South Pacific Stock Exchange. Information as at 31 December 2001.

The CMDA's work of developing and delivering appropriate public awareness and investor education programs for the public continued. During 2001, the CMDA made only two public awareness presentations and it chose to have more promotions by using the media more extensively. A series of advertisements covering different awareness issues including promoting the services of the brokers, advised the investors. In the last quarter of 2001 it became evident that the government would be proceeding with the sale of some of its shares in Amalgamated Telecom Holdings (ATH). As this was going to be a significant public offering, the CMDA had to ensure that an appropriate investor education campaign would accompany the offering.

As displayed in table 4.8, by 2002 there were 15 companies listed on the SPSE. Amalgamated Telecom Holdings (ATH) got listed on the SPSE in April 2002. The government successfully concluded its sale of shares in Amalgamated Telecom Holdings.

This was government's first privatization to the public. It sold over $64 million in shares to private and public investors. Almost 2000 members of the public applied for 20.1 million shares at $1.06. Through private placements $43.4 million had been placed with institutional investors. This to some extent demonstrated the capacity of the local stock market to raise equity capital.

The number of shares traded grew by 162%, from 2.6 million to 6.8 million. The market capitalization grew by 180% from $275 million to $769 million. This substantial growth was attributed to the listing of Amalgamated Telecom Holdings, one of the largest companies in Fiji.

Table 4.8 Trading Statistics for the year 2002

Company	No. of Trades	No. of Shares Traded	Share Price($)	Market Capitalization
APP	17	66 279	0.57	4 560 000
ATH	102	351 048	1.16	489 641 647
CBF	10	1 639	27.20	54 400 000
CFM	18	30 970	0.95	3 087 975
FIL	11	54 250	0.71	2 993 448
FMF	49	168 855	1.43	42 900 000
FSC	5	309 540	0.35	15 540 000
FTV	40	51 090	2.38	24 514 000
PGI	9	294 777	1.95	14 857 506
RBG	55	4 919 500	0.98	29 400 000
RCF	11	17 002	1.65	9 900 000
SPD	10	2 900	7.16	15 060 881
FHL	305	533 829	3.00	31 393 950
TTS	6	2 811	2.11	29 607 946
VBL	3	19 668	1.33	798 000
Total	**651**	**6 824 158**		**768 655 353**

Source: South Pacific Stock Exchange. Information as at 31 December 2002.

Although the number of companies listed on the SPSE had more than doubled since 1998, to 15 companies, the trading volume generally continued to be low. The Amalgamated Telecom Holdings listing in April 2002 did not positively impact trading volumes as expected. This low trading volume might reflect among other things the low number of shares held by public investors in the listed companies or maybe the generally strong performance of the listed companies. Most of Fiji investors appear to be long-term investors, content to hold onto their shares for the long term.

Table 4.9 shows that in 2003, a total of 3.6 million shares was traded on the SPSE. This was 47% lower than the 6.8 million shares that were traded in 2002. There was a 106% increase in outstanding buy orders for 2003 and the number and value of outstanding buy orders on the SPSE now generally exceeded sell orders. The market capitalization of the listed companies was $748 million on 31 December 2003, a decline of 3% when compared to $769 million for the same period the previous year. The one major factor that led to this decline in the market capitalization was the decline in the value of Amalgamated Telecom Holdings shares in 2003 from $1.16 to $1.05, together with the decline in share prices of Fiji Sugar Co-operation and
R B Patel Group.

Table 4.9 Trading Statistics for the year 2003

Company	No. of Trades	No. of Shares Traded	Share Price($)	Market Capitalization
APP	14	71 512	0.65	5 200 000
ATH	113	236 833	1.05	443 210 111
CBF	10	7 549	35	70 000 000
CFM	20	190 211	1.07	3 478 035
FHL	282	367 751	3.12	32 649708
FIL	24	131 049	0.76	4 091 899
FMF	31	30 733 535	1.48	44 400 000
FSC	2	2 300	0.25	11 100 000
FTV	28	35 100	3.12	32 136 000
PGI	13	65 700	2.21	16 838 507
RBG	27	2 240 038	0.89	26 700 000
RCF	8	7 902	2.00	12 000 000
SPD	3	1 750	7.70	16 196 758
TTS	6	10 364	2.07	29 046 658
VBL	2	4 530	1.31	1 310 000
Total	**558**	**3 583 304**		**748 357 676**

Source: South Pacific Stock Exchange. Information as at 31 December 2003.

During the year, CMDA conducted a comprehensive formal survey of the listed companies to find out their motivations for listing and if they were satisfied with the work of CMDA and SPSE. In an effort to make trading data available to the general public directly from the stock exchange, the Asian Development Bank (ADB) under its technical assistance program funded the development of the SPSE website, which was launched in April 2003.

As shown in table 4.10, in 2004 Kontiki Growth Fund limited, a new private equity fund, successfully raised $3.5 million in its initial public offering and listed on the SPSE in December. The market capitalization of the SPSE reached a record high of $882 million, an increase of 18% compared to the previous year. The total value of shares traded on the SPSE was $12.7 million, 195% higher than the value of the shares traded in 2003. Over 7.8 million shares were traded.

Table 4.10 Trading Statistics for the year 2004

Company	No.of Trades	No.of Shares Traded	Share Price($)	Market Capitalization
APP	13	48 020	1.02	8 160 000
ATH	196	543 528	1.09	460 094 306
CBF	27	7 510	55	110 000 000
CFM	20	63 600	1.55	5 038 275
FIL	19	109 909	0.85	4 769 094
FMF	21	169 660	2.80	84 000 000
FSC	16	39 933	0.35	15 539 999
FTV	71	89 300	3.68	37 904 000
KGF∗	7	12 500	1.04	3 640 000
PGI	25	3 106 750	2.38	18 133 777
RBG	43	3 135 700	1.05	31 500 000
RCF	9	32 302	2.55	15 300 000
SPD	9	4 200	11.00	23 138 225
FHL#	390	386 291	3.26	34 114 759
TTS	8	22 958	2.04	28 625 692
VBL	7	13 167	2.00	2 040 000
Total	**881**	**7 785 328**		**881 998 128**

\# Listed on a restricted board.

∗ Listed on 16 December 2004.

Source: South Pacific Stock Exchange. Information as at 31 December 2004.

In the 2004 National Budget, the government announced a 150% tax rebate for the costs associated with listing on the SPSE. These costs include investment advisory fees, legal fees, accounting fees, and company administration and management costs, underwriting fees, brokers' fees for public or private placement of securities, costs of any special reports required for the float and listing application fees. This initiative is expected to have a positive impact in increasing the number of companies that list on the SPSE in the future.

In the year 2005 there was another listing: Yaqara Group Ltd was listed on the SPSE on 30th March 2005. Moreover, during the year Carlton Brewery Fiji Ltd proposed the acquisition of all the South Pacific Distilleries shares . This proposal became effective on 25th May 2005. Carlton Brewery Fiji Ltd , after acquiring all the shares of South Pacific Distilleries was then renamed as Foster Group Pacific Ltd (FGP) on 14th June and South Pacific Distilleries was delisted on 24th June 2005.

Table 4.11 Trading Statistics for the year 2005

Company	No.of Trades	No.of Shares Traded	Share Price($)	Market Capitalization
APP	10	460 400	1.15	9 200 000
ATH	175	484 710	0.96	405 220 673
CFM	27	73 200	1.85	6 582 300
FIL	16	77 076	0.80	4 608 619
FMF#	61	3 724 100	0.97	145 500 000
FSC	7	16 710	0.34	15 095 999
FTV	75	255 384	4.45	45 835 000
KGF	32	258 400	1.03	3 605 000
PGI	13	31 805	2.30	17 524 238
RBG	20	72 600	1.34	40 200 000
RCF	9	12 600	3.10	18 600 000
FHL	493	405 767	3.55	37 149 508
TTS	12	10 681	2.10	29 467 624
VBL	3	4 597	2.11	37 149 508
FGP∗	21	14 750	21.20	220 652 250
Total	**974**	**5 902 780**		**1 023 874 442**

FMF includes the share split of 1:5.

∗ SPD and CBF were merged and renamed as FGP.

Source: South Pacific Stock Exchange. Information as at 31 December 2 005

By the end of the first quarter of 2005 the number of listed companies increased to seventeen but the South Pacific Distillery and Carlton Brewer Fiji merger left only sixteen companies listed on SPSE. During the year Telecom Fiji limited, a subsidiary company of Amalgamated Telecom Holdings announced the Commerce Commission's decision of regulating the call charges downwards for all of the ATH's subsidiaries. Following this announcement, Amalgamated Telecom Holdings released a market announcement regarding its adverse impact on the company's profitability.

The market capitalization of the listed companies had surpassed F$1 billion by the end of the year 2005. It stood at F$1 023 847 442, which was an increase of 16.1% when compared with the same period in the previous year. This can be seen as a growth for SPSE as it demonstrates that investors do have confidence in the stock market. This high market capitalization was achieved through a steady increase in the share price of some of the listed companies such as Foster Group Pacific Ltd, Flour Mills of Fiji and Fiji Television Ltd.

The number of trades by the end of 2005 increased by 9.5% compared to the same period in the previous year while the number of shares traded fell by 23.8% compared to the same period in the previous year. During the year the biggest share price gain was of Foster Group Pacific Ltd, which increased by 39.3%, while the largest share price fall was in Amalgamated Telecom Holdings. This share price fall in Amalgamated Telecom Holdings could be the effect of the Commerce Commission's Telecom charges announcements or due to the decline in profits caused by the corporate restructure.

In its 2006 National Budget announcement, the government allocated F$810 000 to the CMDA and $F250 000 to the SPSE. This is an increase in government grant compared with the previous years and this could be seen as government's commitment to assist in the stock market development and on the whole, the capital market's development.

4.6 Trends in Market Performance

How can the stock market development be measured? Theory does not provide a unique explanation of stock market development (Bundoo, 1999). However, the size of the market, volumes and value traded, market capitalization, liquidity of the market, market concentration and degree of listing are used in this research as factors to provide an assessment of stock market development in Fiji.

4.6.1 The Size of the Market

The assumption behind this measure is that overall market size is positively correlated with the ability to mobilize capital and diversify risk on an economy wide basis (Agarwal 2001). For the size of stock markets the work of La Porta et al. (1997, 1998) and Levine and Zervos (1998) using the stock market capitalization to GDP ratio is employed as an indicator of market development.

The market capitalization, GDP information and market capitalization to GDP ratio are presented in table 4.12 Also figure 4.1 shows the trend in the market size between 1996 and 2004. It can be seen from the table and the figure that the stock market size increased from 1996 to 2002 and then fluctuated slightly from 2002 to 2004. In April 2002 Amalgamated Telecom Holdings (ATH) was listed and the data show that its impact on the stock market size has been enormous. It had a market concentration of 63.7%[14] and this is the reason for the significant increase in the stock market size in 2002.

The levels of financial intermediary development and openness to trade appear to be the most significant macro-factors that have a positive impact on the size of the equity market in the world at large (Li 2005). Fiji is a small economy reflected by the Gross Domestic Product (see Table 4.12). Consequently the market is correspondingly small and the number of companies disposed to list is limited. However, the SPSE had expected to secure more listings than have been obtained. A study of why companies are not taking a keen interest to list on the SPSE is something that this research investigates further and will be discussed in greater detail in the later part of this dissertation.

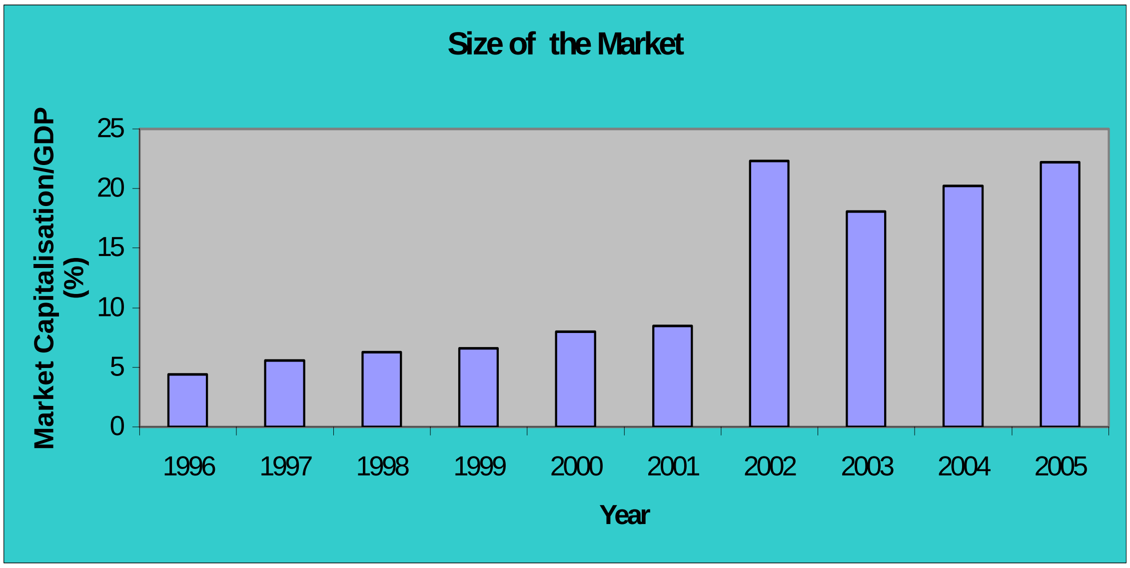
[14] 489641647/768655353 = 63.7%

Table 4.12 Market Size, 1996 to 2005

YEAR	MARKET CAPITALIZATION ($Fmillion)	Gross Domestic Product (GDP) ($Fmillion)	Market Cap/GDP (percentage)
1996	114	2575	4.4
1997	144	2571.1	5.6
1998	175	2792.5	6.3
1999	214	3238.8	6.6
2000	243	3049.1	8.0
2001	275	3199.5	8.5
2002	769	3442.9	22.3
2003	748	4134.9	18.1
2004	882	4373.8	20.2
2005	1023	4616.6	22.2

Data Source: South Pacific Stock Exchange and Reserve Bank of Fiji.
US Dollar Exchange rate =0.58

Figure 4.1 The Size of the Stock Market from 1996 to 2005



Data Source: South Pacific Stock Exchange and Reserve Bank of Fiji

4.6.2 Volume Traded and Value of Shares Traded

The trading of stocks maintains market fairness, competitiveness and efficiency. Using volume and value of trade as a measure of the market's trend intensity, or momentum is common, as it gives an indication of the stock market's power or strength. By analyzing the movements in volume of trade, we can get a better insight into the prevailing market sentiment, because we can uncover those years where the biggest trading activity is taking place. Having access to advancing and declining volume data will thus reveal when the majority of traders are focusing their activities.

Table 4.13 and figures 4.2 a and b show the trends in volume and value of trade on the SPSE from year 1996 to year 2005.

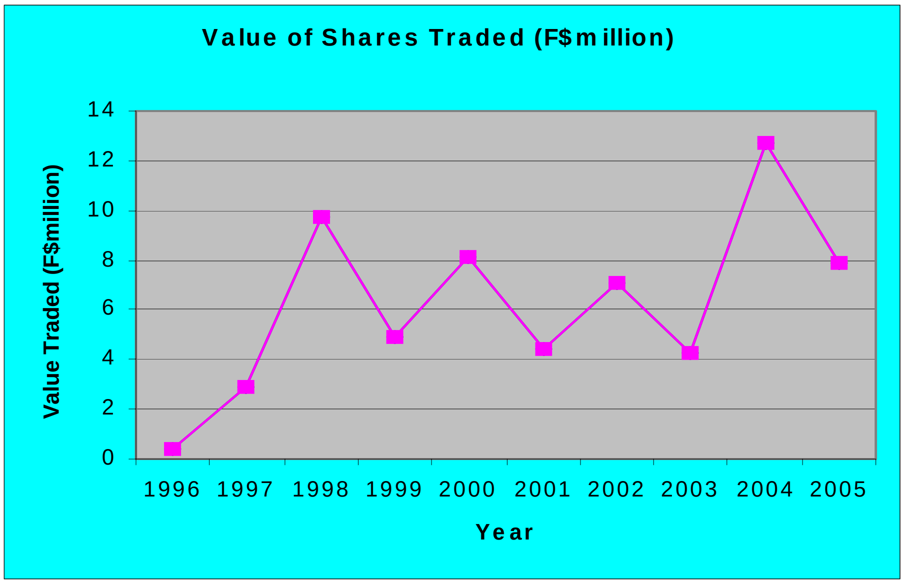
Table 4.13 Volume and Value of Shares Traded, 1996 to 2005

Year	Volume of shares traded (million)	Value of shares traded ($million)
1996	0.2	0.4
1997	2.1	2.9
1998	4.6*	9.7
1999	3.4	4.9
2000	2.5	8.1
2001	2.6	4.4
2002	6.8	7.1
2003	3.6	4.3
2004	7.8	12.7
2005	5.9	7.9

Data Source: South Pacific Stock Exchange.

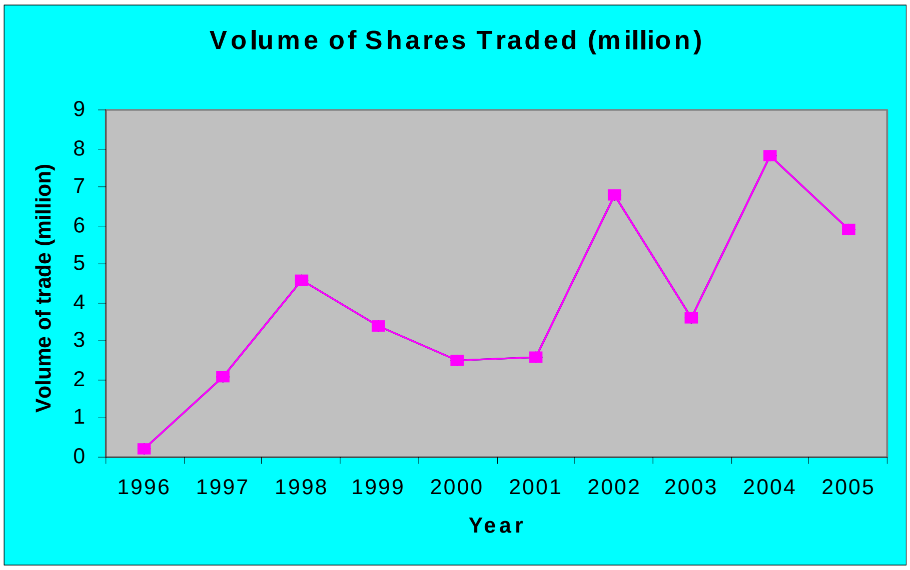
* Includes the takeover of 1.6 million SPD shares by CBF and the transfer of 1.4m Fiji TV shares through a private transaction

Figure 4.2 a. Volume of Trade between 1996 and 2005



Data Source: South Pacific Stock Exchange.

Figure 4.2 b Value of Trade between 1996 and 2005



The general trend is one of fluctuations between 1996 and 2005. However, the volume and value of shares traded in 2005 is higher than 1996.

From 1996 to 1998 there was an increase in the volume as well as in the value of trade but then in the year 1999 there was a decline in both the value and volume of trade. The first quarter of 2000 showed some active trading at the South Pacific Stock Exchange but after that the trading level decreased. The volume of shares traded decreased by 36% compared to the 1999 trade but the value of shares increased by 65%, which was due to the increase in the number of trades in Carlton Brewery Ltd, Flour Mills of Fiji Ltd and South Pacific Distilleries. The Carlton Brewery Ltd and South Pacific Distilleries were ‘high value’shares.

In 2001 the four new listings[15], which were post-coup listings, led to an increase in the volume traded, though there was a decline in the value. Following this the number and value of shares traded in 2002 increased but in 2003, there was a reduction in terms of the number and value of shares traded. In 2004 the number of trades executed on the SPSE reached an all-time high of 881 trades, exceeding the number of trades executed in 2003 by 50% and at the same time the value of shares traded also increased significantly by 195%. However, there was a decline in the value as well as volume of trades in 2005. This decline is highly attributable to the significant decline in the number of trades and number of shares traded in Pacific Green Industries (Fiji) Limited (PGI) and RB Patel Group Limited (RBG) in 2005.

4.6.3 Market Capitalization

Market capitalization is seen as an indicator of the amount of growth in the market. As shown in table 4.14 and figure 4.3, the trend of the market capitalization is one of growth from the year 1996 to the year 2004.

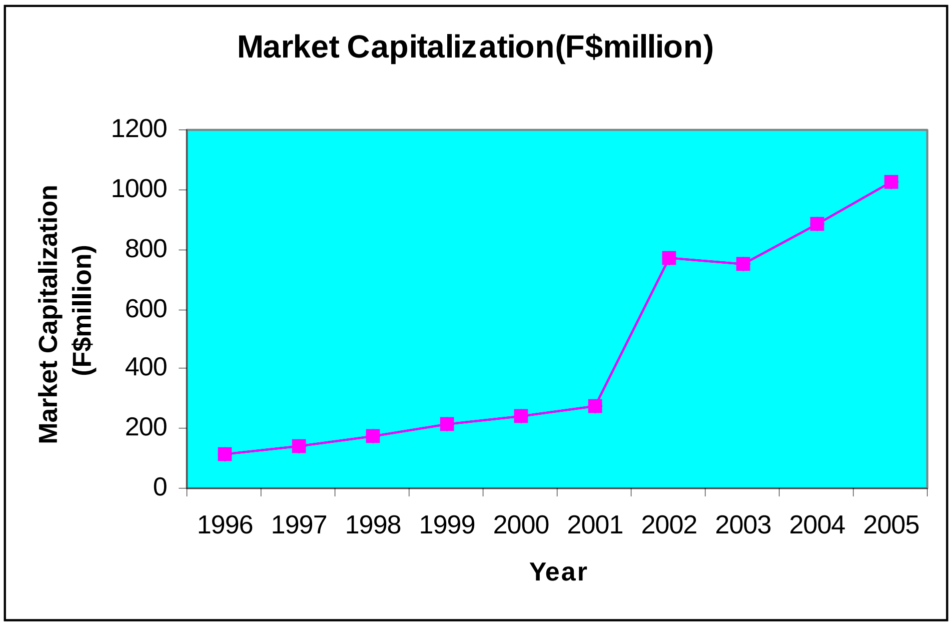
[15] Pacific Green Industries (Fiji) Limited (PGI), RB Patel Group Limited (RBG), Vishal Bharteeya Company Limited (VBL) and Communications (Fiji) Limited (CFL)

Table 4.14 Market Capitalization, 1996-2005

YEAR	No. of Listed Companies	MARKET CAPITALIZATION ($million)
1996	4	114
1997	8	144
1998	9	175
1999	9	214
2000	10	243
2001	14	275
2002	15	769
2003	15	748
2004	16	882
2005	16	1 024

Data Source: South Pacific Stock Exchange.

Figure 4.3 **Market Capitalization between 1996 and 2005**



Data Source: South Pacific Stock Exchange.

From year 1997 to year 2001 the increase in the market capitalization ranged from 13 to 26% [16]. In the year 2002 there was a significant increase in the market capitalization. This substantial growth was attributed to the listing of Amalgamated Telecom Holdings Limited (ATH), one of the largest groups in Fiji. In the year 2005 the market capitalization increased to F$1.024 billion. This increase in market capitalization is mainly due to the share split in Flour Mills of Fiji and the increase in share price of Fosters Group.

4.6.4 Market Liquidity

Liquidity generally refers to the ability to buy and sell securities easily. Liquid equity markets allow companies on the one hand to have a permanent access to capital through equity issues and on the other hand, to allow investors to switch out of equity if they need to access funds or if they want to change the composition of their portfolios.

Two measures of liquidity commonly used in the literature are computed: total value traded to GDP and the turnover ratio. The turnover ratio gives the total value of shares traded in relation to the size of the market. The results are reported in tables 4.15 a and 4.15 b.

Table 4.15 a. Market Liquidity (Total value traded/GDP)

YEAR	Value of Shares Traded (million $)	Gross Domestic Product (GDP) ($ million)	Total value traded/ GDP (percentage)
1996	0.4	2575	0.016
1997	2.8	2571.1	0.109
1998	9.6	2792.5	0.344
1999	4.9	3238.8	0.151
2000	8.1	3049.1	0.266
2001	4.4	3199.5	0.138
2002	7.1	3442.9	0.206
2003	4.3	4134.9	0.104
2004	12.7	4373.8	0.290
2005	7.9	4616.6	0.171

Data Source: South Pacific Stock Exchange.

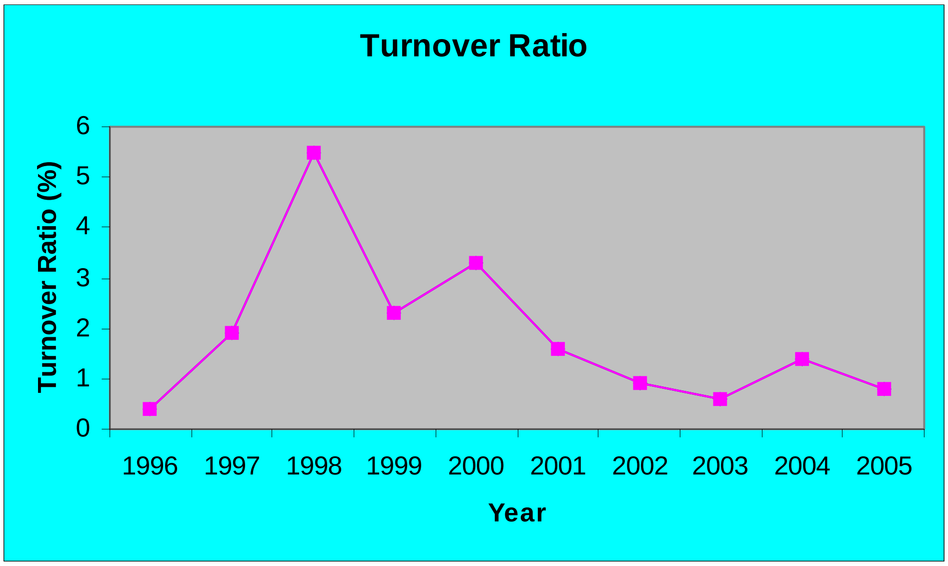
[16] Percentage increase in market capitalization :1997, 26.3; 1998, 21.2; 1999, 22.3; 2000, 14; 2001,13; 2002, 180; 2003,2.7; and 2004,18.

Table 4.15 b Market Liquidity (Turnover Ratio)

YEAR	Value of Shares Traded (million $)	Market Capitalization ($million)	Turnover Ratio (%)
1996	0.4	114	0.4
1997	2.8	144	1.9
1998	9.6	175	5.5
1999	4.9	214	2.3
2000	8.1	243	3.3
2001	4.4	275	1.6
2002	7.1	769	0.9
2003	4.3	748	0.6
2004	12.7	882	1.4
2005	7.9	1 024	0.8

Data Source: South Pacific Stock Exchange.

Figure 4.4 **The Turnover Ratio between 1996 and 2005**



Data Source: South Pacific Stock Exchange.

From figure 4.4 it can be seen that there is a significant increase in the turnover ratio between 1996 and 1998 and then from 1999 there are fluctuations in the turnover ratio. Low liquidity is particularly evident over the entire period. This can be seen as characterized by low levels of trading activities and several factors could account for this. Shareholders may not be willing to part with their shares due to differences in their expectations. Also perhaps a buy and hold strategy, rather than an active strategy, predominates. There might also be a lack of awareness among the investing public. The Fiji Islanders might also have been apt to invest in investment properties compared to investments in shares and they have not changed this investment pattern, perhaps not having been made sufficiently aware of the risks and benefits of investing in shares. Investors are used to placing their money in bank deposits and keeping it there for a long period of time. The low turnover ratio may also be attributed to the limited flotation of shares[17]. Flotations of shares by the listed companies in percentages are as follows Atlantic & Pacific Company Ltd – 40,Amalgamated Telecom Holdings- 7%, (0.3 % are held by private individuals as opposed to institutional investors) , Communications Fiji Ltd -71.16, Foster Group Pacific Ltd- 52,Fiji Care Insurance Ltd- 28.6,Flour Mills of Fiji-12, Fiji Sugar Corporation- 13.9, Fiji Television Company Ltd-68.7, Kontiki Growth Fund-3.5, Pacific Green Industries -38.17, RB Patel Group Limited- 15, Rice Company of Fiji –50, Toyota Tsosho (South Sea) Company Ltd- 70, Vishal Bharteeya Company Limited- 20.4, Yaqara Group Ltd- 1.4 and Fijian Holdings Ltd, 52.3.

Only 0.3% of Amalgamated Telecom Holdings shares are in the hands of individual shareholders. As per 2004, Amalgamated Telecom Holdings had a market concentration of 59.2%[18].

4.6.5 Market Concentration

Market concentration can be measured by looking at the share of market capitalization accounted for by the large stocks. These large stocks are seen as the leading 3 to 5 companies in the market (Maunder et al. 1991). In many economies a few companies dominate the stock market (Bundoo 1999). High concentration is not desirable: it can adversely affect liquidity, as it is common to find a negative correlation between concentration and liquidity. Table 4.16 shows the market concentration percentages. The researcher considered the leading 5 companies in terms of market capitalization to be large stocks in Fiji. The selection of these leading companies changes with the new listings depending on if they are part of the group of leading companies in terms of market capitalization. As is evident from the table, the market concentration has been hovering at 43 % or above for all the years from 1998 to 2005 and from 2002 to 2004 it has exceeded 70%.

[17] The authorized capital and issued up capital of the listed companies: APP 10m, 4m; ATH 40 000b, 105m; CFM 5m, 3.6m; FGP4m, 2.08m; FIL 10m, 2.85m; FMF 50m, 6m; FSC 160m, 22m; FTV 15m, 10.3m; KGF 100m, 3.5m; PGI 20m, 7.6m; RBG 100m, 15m; RCF 6m, 3m; SPD 5m, 2.1m; TTS 20m, 14m; VBL 5m, 1.02m; YGL 100m, 1.4m and FHL 20m, 10.4m.

[18] 748357676/443210111 = 59.2%

This high market concentration in 2002 is due to the listing of ATH. This shows that Fiji's stock market is highly concentrated; this can also be a reason for its low liquidity.

Table 4.16 Market Concentration between 1998 and 2005

Year	**Market capitalization of large stocks /total market capitalization**	**Market Concentration (%)**
1998	73963217/174834816	43
1999	117888554/213942482	55
2000	145419147/242822130	60
2001	164680505/274568350	60
2002	586941647/768655353	76
2003	557610111/748357676	75
2004	654094306/881998128	75
2005	709907923/1023847442	69

Source: South Pacific Stock Exchange.

4.6.6 Market Listing

Table 4.17 shows the number of the listed companies between 1996 and 2005. It shows that the number of listed companies has increased from ten in 1996 to sixteen in 2005. However, from 1998 to 1999 and then from 2002 to 2003 the SPSE did not have any new listing. The reasons for the reluctance of companies to list on the SPSE will be studied in-depth in chapter 6 of this study.

Table 4.17, Listings, 1996 to 2005

YEAR	No. of Listed Companies
1996	4
1997	8
1998	9
1999	9
2000	10
2001	14
2002	15
2003	15
2004	16
2005*	16

* The number of listed companies increased to 17 after the listing of YGL at the end of March 2005 but the merger of SPD and CBF decreased the number to 16 by the end of 2005.
Source: South Pacific Stock Exchange.

4.7 Summary and Conclusion

This chapter has highlighted the need to have a stock exchange in Fiji. It provided an overview of how the stock market has developed from the year 1996 to the year 2005. A number of indicators such as the size of the stock market, volumes of trade, market capitalization, market liquidity, market concentration and degree of listing are used to show how the market has grown over time. The type of the trading system used in Fiji is also discussed.

The chapter also allows one to see the importance of having a stock market. Finally, the chapter indicates that the stock market is facing challenges such as needing to increase listing at the SPSE, improve liquidity, enhance public awareness about the SPSE, and increase resources; any or all of these challenges may be affecting its development. These challenges and how they are affecting the development of the stock market will be discussed in greater detail later in this work.

Chapter Five

An Assessment of the Listed Companies in Fiji

5.1 Introduction

A typical capital market has many players: banks, insurance companies, mutual funds, finance companies and stock markets. The stock market, which mainly consists of the equity and the bonds market, is seen as a major component of the capital market. This section of the study examines why companies list on the South Pacific Stock Exchange (SPSE), the uncertainties these listed companies had before listing and their satisfaction with listing, with the SPSE, and with the regulatory body of the stock exchange, which is the Capital Market Development Authority (CMDA).

The research instrument for this survey is a semi-structured questionnaire (see appendix one).In order to maximize the response, all 16 listed companies were mailed a questionnaire each with a postage-paid reply envelope and also the questionnaires were e-mailed to the listed companies. The addressees of the questionnaires were selected with the help of SPSE as the questions required a person with some in-depth knowledge about the company. Most of them were selected from senior management level. Twelve companies responded. The companies that agreed to further discussions were also interviewed.

The chapter interprets and evaluates the findings of the study based on the analysis of the questionnaire on the listed companies. It also provides a discussion of the findings and compares and contrasts the findings with experiences in other markets reported in the literature.

5.2 The Listing Process in Fiji

Generally, a company wishing to sell its stock to the public has first to apply for listing on the stock exchange. Each exchange has its own requirements, which a company must fulfil before it can be listed. Once the application has been accepted and approved by the appropriate authority, the company issues a prospectus, which provides information pertinent to it and to the issue, and invites the public to subscribe for the shares. This floatation of a company's stock is usually made through an underwriter who guarantees the issue. The shares and stocks approved are sold to the public mainly through the brokers, banks and other financial institutions. After the stocks are sold to the public, the company, having satisfied all the floatation requirements, is formally listed on the stock exchange and its shares are allowed to be traded in the secondary markets.

Fiji's stock market is seen as a small market with a very low degree of liquidity. It is very much in the developing stage. Evidence suggests that certain factors influence development of the stock market in developed economies and other factors are at play in developing economies (Wagacha, 2001). Seeking to replace debt with equity no longer seems to be the prime motive for a stock exchange listing in developing economies. Stock market development seems to offer greater room not just for the substitution but also for the diversification of the risk (ibid.).

5.3 Listings and the Stock Market Capitalization at the SPSE

Listing is a pivotal decision in the life of a company. When faced with this decision, a company must give careful consideration to the long-term implications of being a listed company (Kimura and Amoro, 1999).

5.4 Overview of the Results – Reasons for Listing

5.4.1 - Motivations for Going Public

The top-level representative responding in each of the listed companies was asked to indicate on a four- point scale. The four point scale was employed to avoid the possibility that respondents would make a non committal mid point response. The detailed direction given to the respondents as to how the questionnaire was to be completed was provided in the questionnaire itself (see appendix1)

Question:

" *How important were the following motivations for conducting an IPO*?"

1 = not relevant: did not influence the decision at all

2 = relevant, but not of sufficient importance to affect the decision one way or the other

3 = important: influenced the decision, but not of sufficient importance to motivate us to conduct an IPO

4 = very important: of such importance that we were motivated to make the decision based on this alone

Table 5.1 reports the results based on the response rate of the questionnaire survey of 75%. It shows the number of respondents that view the motivations as not relevant, relevant, important or very important (i.e., respond 1,2, 3 or 4).

Table 5.1 Motivations for conducting an IPO (N = 12)

	Not relevant (n)	Relevant (n)	Important (n)	Very Important (n)
To minimize our cost of capital	9	2	0	1
Debt is becoming too expensive	7	3	0	2
Our company has run out of private equity	8	2	1	1
To create public shares use in future acquisitions	0	1	5	6
To allow one or more principals to diversify personal holdings	0	0	4	8
To establish the reputation of the company	0	0	3	9
To enhance the reputation of the company	0	0	4	8
To broaden the base of ownership	0	2	4	6
To improve the financial and managerial discipline of the company	0	0	3	9
To establish a market price/value for our company	0	0	4	8
To attract analysts' attention	0	0	6	6
To increase public awareness about the company and its products	0	0	3	9

The analysis indicates that the predominant reasons for these listed companies to have an IPO are:

- to allow one or more principals to diversify personal holdings
- to establish the reputation of the company
- to enhance the reputation of the company
- to improve the financial and managerial discipline of the companies
- to establish a market value for the company
- to increase public awareness about the company and its products.

According to one of the respondents:

> Every shareholder is a potential consumer and thus the company often benefits when its shares are owned by the public, especially if the company sells a consumer product or service. The more widespread the distribution of shares, the greater the public awareness of the company's products or services.

Moreover, one of the respondents of the listed companies said that:

> With publicly held shares, the daily market stock quotation shows the value that the investing public places on those shares and this also enhances the company's reputation.

The analysis shows that enhancing the company's image is seen as a very important reason for companies to have an IPO. The fact that minimizing the cost of capital is seen by most of the companies as not relevant is noteworthy. Only one of the companies viewed the goal of minimizing the cost of capital as an important rationale for going public. The other two motivations that pertain to financing operations, debt is becoming too expensive and the company has run out of private equity, were also viewed as not important. Allowing the venture capitalists to cash out is seen as important by a few companies and is seen as the main reason behind listing by one company.

5.4.2 - Motivations behind listing

The respondents were further asked to state on the four-point scale, *"How important were the following in making a decision to list?"*

Table 5.2 reports the results. It shows the number of respondents that view the motivations as not relevant, relevant, important or very important.

Table 5.2 Motivations behind Listing N = 12

	Not relevant (n)	Relevant (n)	Important (n)	Very Important (n)
To introduce a greater financial and managerial discipline into the company	0	0	3	9
To create a more liquid trading market for the company's shareholders	0	0	4	8
For share value appreciation	0	0	6	6
To improve the company prestige	0	0	4	8
To create a market for the company's share issues	0	0	4	8
To improve the perception of a company's financial stability and transparency	0	0	3	9

One of the respondents said that:

> Getting listed on the stock market means to build more respect for our business as a lot of people will come to know about the existence of the business and thus the business would be more well known.

Another respondent said:

> Listing on the stock exchange means that the general public will know that my business is operating profitably, as we will be providing returns to the investors and thus this gives more encouragement to the company's operation.

The analysis shows that majority of the companies viewed all the mentioned factors as very important in enabling them to decide to list on the SPSE. The companies see these motivations highly beneficial in terms of gaining good support and growth of their companies. However, from the discussions it appeared that introducing better financial and managerial discipline into the company and improving the perception of a company's financial stability and transparency appeared to be the driving factor for listing. According to a number of companies they have considered these motivations as their objectives of being listed and these objectives help them become more active in pursuing their strategic goals and in strengthening the company. This is ultimately reflected in an improved financial performance and shareholder value. These also help them to be viewed as companies of high reputation. These observations demonstrate that entities are more concerned with the market or public perception than by economic reality,—namely the opportunity listing gives to optimize the financing decision.

The respondents were further asked, *being listed to what extent have your objectives been met?*

Table 5.3 Achieving of listing objectives N = 12

Met fully	8
Met to some extent	3
No comments	1

From the responses it can be seen that the majority of the companies' feel that they have met their objective for being listed and one of the companies decided not to comment on this. From the responses it appears that three quarters of the respondents are satisfied by the outcome of the listing decision.

The majority of the companies had mentioned that gaining access to a source of capital as an alternative to the banks is one of the most noted benefits of going public. All these companies that emphasized this benefit are the ones that are looking for some large future investments. For the majority of the companies the value of the companies' shares increased and they were quite satisfied with this share price increase, as according to them this showed an improved value of their businesses. Furthermore, it is said that once a company goes public,the owner (founder) often finds himself in a new and more favourable position as he feels that the company's status is really enhanced. This holds true for the majority of the listed companies as they feel that the company prestige has improved significantly after getting listed.

5.4.3 Discussion – Reasons for Listings

This section provides a discussion on the findings of the listed companies and will demonstrate the similarities and differences between motivations found in Fiji with those found elsewhere.

The subsections below show the predominant reasons for companies to list on the Fiji's stock exchange

5.4.3.1 - Reputation of Companies

The following were the reasons related to the reputation of the companies:

- to establish the reputation of the company
- to enhance the reputation of the company
- to establish a market value for the company
- to increase public awareness about the company and its products
- to improve the perception of a company's financial stability and transparency .

From the prevalent reasons for having an IPO it can be seen that the company's reputation was a key factor in the decision making process for these listed companies. In an overview of the decision to go public, Roell (1996) summarized that public listing could be regarded as a marketing device enhancing a company's image and publicity. This publicity induces the outside investors to learn more about the company. Maksimovic and Pichler (2001) also found that public trading could add value to the companies, as it would inspire more faith in the company from other investors, customers, creditors and suppliers. The listed companies in Fiji view an IPO more as a strategic reputation-enhancing move and as a means of establishing and improving the market value of the company, rather than as a financing decision.

According to the majority of the respondents, having a public market for its shares can improve the company's corporate image and indirectly strengthen its competitive position. In addition to this, the attention of the financial community and press is focused on the company as it goes public, so it is easy to receive free publicity and word-of-mouth advertising from investors. This directly boosts the corporate image as well as increases public awareness about the company and its products. According to certain listed companies, once they are able to establish a public market for their shares they can also offer their employees stock options. These sorts of compensation can increase employee motivation and loyalty, as discussed by Holmstrom and Tirole (1993) and documented by Schipper and Smith (1986).

5.4.3.2 - Financial and Managerial Discipline

One of the reasons related to financial and managerial concerns has been to improve the financial and managerial discipline of the companies,

The stock market also acts as a managerial discipline device and is also seen as a reason for the companies in Fiji to list. The SPSE requires substantially more financial disclosure than the unlisted companies, in line with other stock exchanges around the world. The SPSE requirements, though, are less rigorous than many other exchanges. Although companies could voluntarily disclose the same information without listing on the SPSE, failure to conform to the rules would carry no costs or penalties. But for listed companies this formal listing serves as a bond put up by the company to guarantee it will faithfully disclose the financial data required by the exchange, which then has an impact on how that management discharges its duty of disclosing all the relevant information to its shareholders. Hence, this brings more discipline to the performance of the managers.

5.4.3.3 - Liquid Trading Market

Moreover, creating a more liquid trading market for the company's shareholders and portfolio diversification has been another critical factor for listing. According to the respondents, going public affects the liquidity of their company's stocks as well as the scope for diversification by the initial holders of the company.

The findings also show that generating funds for additional investment has not been an important factor leading companies to make an IPO. Myers and Majluf (1984) proposed the pecking order theory, stating that companies prefer internal finance to external finance, and debt is preferred to equity. This has been interpreted as managerial capitalism—an attempt by managers to avoid the discipline of capital markets and to cut the ties that bind managers to stockholders' interests. This may hold true for Fiji, because the majority of the companies listed on the SPSE do not consider equity financing as a major factor to list. From discussions with them it was clearly evident that bank financing has been an easier source of funding to access.

5.5 Overview of Results - Factors influencing the IPO Timing

The respondents were asked to indicate on the four–point scale,

" To what extent did the following influence the timing of a possible IPO?"

Table 5.4 reports the responses. It shows the responses regarding their views on the timing of IPO.

Table5.4 Factors influencing IPO timing N = 12

	Not relevant (n)	Relevant (n)	Important (n)	Very Important (n)
Overall stock market conditions	0	0	2	10
Industry conditions	0	0	3	9
Other good companies were currently going public	9	2	1	0

The overall market conditions were identified as the very important determinants of timing an IPO. The other factor, industry conditions are also perceived as strongly influencing the timing of an IPO.

One of the respondents said that:

> Part of the attraction to go public stemmed from the industry growth as this would help in getting a good response from the investors.

Further to this, another respondent said that:

> The best IPO timing is when the market situation is improving because investors will invest on the expectation of improvements in earnings in the near future and thus there will be a rise in share value.

The results suggest that management in certain entities has pursued windows for opportunities to have IPOs. They define these windows in terms of the overall market conditions and industry conditions. Some of the companies perceive the timing of the IPOs in support of their company's growth as an important factor, but not to the extent that it really affects their decision of the timing of an IPO.

5.5.1 Discussion – IPO Timing

5.5.1.1 Factors Influencing the IPO Timing

Previous literature has documented that IPOs tend to come in waves that are characterized by periods of hot and cold markets, (see for example, Ibbotson and Jaffe 1975, Ritter 1980). The literature outlines different situations that might prevail in the IPO. First, managers take advantage of the bull markets and attempt to capture attractive prices. Empirical measures of the bull markets include current overall market conditions (Lucas and McDonald 1990) and current industry conditions (Pagano, Panetta, and Zingales 1998). So the timing of the IPO is set to take advantage of conditions that allow offerors to receive the best price.

Second, timing is driven by the attractiveness of the IPO market. Lowery and Schwert (2002) argue those recent first-day stock performances of companies going public leads other companies to decide to go public. Choe, Masulis and Nanda (1993) argue that companies prefer to go public when other good companies are currently listing. Third, Choe, Masulis and Nanda (1993) and Lowery (2002) argue that companies go public when they reach a certain point in the business cycle and need external equity capital to grow.

The findings show that IPOs made in Fiji over the period 1997 2005 have been timed to occur when favourable market and industry conditions prevail. This finding is very much consistent with the findings of Lucas and McDonald (1990) and Pagano, Panetta, and Zingales (1998)). Pagano, Panetta, and Zingales (1998) studied a sample of Italian companies and found that the primary factor driving the IPO was market and industry timing. In addition to this, the clustering of IPOs is well established both in the United States as found by Ritter (1984) and in other countries by and Ljungqvist (1995).

5.6 Overview of Results - Reservations the Listed Companies had Before Going Public

The listed companies were also asked to state on the four-point scale: " *What concerns (or reservations) did you have in going public?"*

Table 5.5 presents the results. It shows the number of respondents that view the concerns or reservations as not relevant, relevant, important or very important (i.e., respond 1,2, 3 or 4).

Table 5.5 Reservations for listing N = 12

	Not relevant (n)	Relevant (n)	Important (n)	Very Important (n)
Meeting the disclosure requirements for a prospectus	2	10	0	0
Meeting the disclosure rules of the stock exchange	2	10	0	0
The cost associated with the going public and listing process	9	3	0	0
Dealing with the company's reorganization	8	4	0	0
Fear of loss of control	4	8	0	0
Fear of disclosing the financial performance to competitors	3	9	0	0
Dealing with the tax issues	8	4	0	0
Fear of public criticism and scrutiny	3	8	1	0
Lack of confidence in the market	12	0	0	0
Lack of corporate advisors	12	0	0	0
Obtaining the major shareholder support	6	6	0	0

It is clearly evident from the results that meeting the disclosure requirements for a prospectus—fear of loss of control, fear of disclosing the financial performance to competitors, and fear of public criticism and scrutiny— were pertinent factors in making the decision to list or not to list. But these factors were not considered to be so influential that the companies decided to withdraw from the IPO.

One respondent said:

> Fear of loss was really appearing as a very major detrimental factor when considering to list. We had a lot of discussion related to this but then the whole management was convinced with the belief that by retaining more than fifty per cent of the shares the business control would be retained.

Some of the companies admitted that initially they found meeting the disclosure requirements in the prospectus a major concern, but then after weighing the benefits of being listed they accepted that these concerns outweighed the disadvantages.

One of the top management staff members of one of the listed companies said:

> At one time by looking at the requirement to list my business decided not to further consider listing but then we accepted that it is a formal requirement and this gives more credibility in listing.

There is an understanding that a suitable regulatory, legal and supervisory environment is a crucial element for effective stock markets. Few companies mentioned that stock markets that operate without good controls might not be as successful in the long run as those that are effectively regulated as a set of rules and policies guide the framework in which any organization should operate.

Moreover, all the companies that decided to list on the SPSE had a long-term confidence in the stock market and they felt that there would be public demand for their shares and the value of the shares would increase over time. This expectation of the increase in the value of the shares over time has been quite true for nearly all the listed companies.

5.6.1 Discussion – Reservations for Listing

5.6.1.1 Reservations before Going Public

The findings illustrate that the listed companies did have some reservations or concerns before going public. Their main concerns were:

- meeting the disclosure requirements for a prospectus
- fear of loss of control
- fear of disclosing the financial performance to competitors
- fear of public criticism and scrutiny.

Once a company makes a decision to go public, the company needs to prepare a prospectus, which is a detailed document that accompanies public offerings of the shares. The prospectus must describe the company, its holdings, capitalization, future plans and matters such as how proceeds from the sale of shares qualified under the prospectus will be spent. Each prospectus is an individually written, finely tailored document. It must provide full, true and transparent disclosure of all material facts relating to the company and the offering, and it must comply with all relevant legislation and policies. The requirements of prospectus disclosure by the SPSE were initially found to be very stringent by the majority of the listing companies. The same thing was also evident in the Pagano, Panetta and Zingales (1998) study, where they found that the enhanced disclosure requirements have been a major obstacle for Italian companies to list on the stock exchange.

The changes in the ownership structure and the degree of the controlling shareholders' interest in the business always provide important insights into the motives to go public. If the IPO is accompanied or followed by substantial divestment by the controlling shareholders or by surrender of controls to outsiders, it creates some fear amongst the controlling shareholders. The currently listed companies really saw this as a very important factor when making the listing decision. The companies then realized that retaining at least fifty-one percent of the shares will ensure their control and a wide distribution of shares will ensure that there is no concentration of voting powers in a few hands. This assurance helped them to reduce their immediate threat to their losing control and all of these companies studied went ahead with their listing.

It has been found that in most countries, the typical large listed company has concentrated rather than dispersed ownership. For Fiji, in 2001 there were 15 publicly listed companies on the South Pacific Stock Exchange and table 5.6 shows the ownership structure of these companies, Patel (2003).

Table 5.6 Ownership Structure of Publicly Listed Companies in Fiji

Company	Year	Largest Shareholder (%)	Top Five Shareholders (%)
Atlantic and Pacific Packaging Ltd	2005	60.00	87.38
Amalgamated Telecom Holdings Ltd	2005	58.20	96.80
Carlton Brewery Ltd	2005	63.08	95.10
Fiji Communications Ltd	2005	26.32	71.99
Fiji Care Limited	2005	62.69	79.99
Fiji Sugar Corporation	2005	68.10	94.63
Fiji TV Ltd	2005	51.00	87.61
Fijian Holdings Ltd	2005	66.79	70.44
Flour Mills of Fiji Ltd	2005	68.07	79.13
Pacific Green Industries Ltd	2005	55.52	97.31
R B Patel Group Ltd	2005	23.01	91.14
The Rice Company of Fiji Ltd	2005	75.00	91.87
South Pacific Distilleries Ltd	2005	80.60	84.50
Toyota Tsuho Ltd	2005	55.74	98.60
Vishal Bharteeya Company Ltd	2005	32.87	79.01

Source: 2005 Company Annual Reports.

As La Porta et al. (1998) indicated, 'dispersed ownership in large public companies is simply a myth … the finance textbook model of management faced by multitudes of dispersed shareholders is an exception and not the rule.' Indeed La Porta et al.(1999) found in their sample of twenty-seven wealthy economies that it is more common for large companies to have a single controlling shareholder than to have dispersed ownership. He or she is in a position to exert a great deal of influence on the way companies they own are operated, and hence the greater is the ability to obtain private benefits, benefits such as overcoming the borrowing constraints, improving liquidity of their shares, improving the managerial discipline and corporate governance of the company and increasing the company's prestige. Evidence of private benefits of control obtained by controlling shareholders has been provided for the USA by Barclay and Holderness (1989) and for Italy by Zingales (1994).

Of all the changes that result when a company goes public, perhaps the loss of privacy may be more problematic than its loss of control. This is very strongly supported by this study. The majority of the companies really had to give very thorough consideration to this before actually deciding to list. When a company becomes public, it is required by the listing rules to disclose much information about the company—its sales, profit margins, and competitive position. The disclosure requirements also reveal highly sensitive information, such as compensation paid to the key executives and the director, special incentives for the management and many of the plans and the strategies that underlie the operations of the company. This may also force companies to unveil information, where secrecy may be crucial for their competitive advantage, such as future marketing strategies. Campbell (1979) was first to point to confidentiality as a deterrent from getting funding in the public markets. While these disclosures need not include every detail of the company's operations, information that could significantly affect the investors' decisions must be disclosed. These listed companies, while finding this factor to be very important, did not see it as a hindrance in the listing decision. Given the overall size of Fiji's economy, companies of any size do not face competition, as there is not room for a number of operators in any one industry in the market. They had a feeling that the employee compensation and the prices that are paid for the materials and the prices they receive for their products are more driven by the market forces. The information disclosed is not really seen as disclosing any confidential information in the market.

5.7 Overview of Results - Cost of Listing and CMDA and SPSE Listing Requirements

5.7.1 Costs of Listing

Furthermore, the listed companies were asked about their views on

" *the costs in dollar terms associated in meeting the regulatory requirements of the CMDA and SPSE, which must be satisfied before going public and listing*".

Their responses were as follows;

Table 5.7 Cost ($) of listing N=12

Costs ($) of CMDA and SPSE in Going Public	**Response**
No costs associated with compliance	1
Minimal costs of compliance, we did not have to weigh the costs against the benefits of making the listing decisions	8
Material costs of compliance, we had to weigh the costs against the benefits	3
Costs were onerous, the costs of listing clearly outweigh the benefits	0

From the responses it appears that very few companies really had to weigh the benefits and costs of being listed and then make the listing decision. The majority of the companies viewed the costs as being minimal or there being no costs. They were quite sure that the benefits that they are going to derive from being listed in the long run will clearly outweigh the initial and the annual costs that they will have to incur as a result of listing process.

In addition to this the respondents were asked, *"How do you see these other costs associated with listings?"*
They were asked to state on the four-point scale their responses.

Table 5.8 Other costs associated in listing N = 12

Other Costs of CMDA and SPSE associated with Going Public	Not relevant (n)	Relevant (n)	Important (n)	Very Important(n)
Placing the financial reports in the public domain	0	1	11	0
Meeting the increased disclosure required under SPSE listing rules	0	3	9	0
Loss of business confidentiality	0	3	9	0
Bad market/industry conditions having the effects on the company's prestige	0	3	9	0

The findings show that almost all the listed companies found these factors to be of importance when analyzing their decisions to list. One respondent said that another factor that they really had to think carefully about was the shareholders' expectations. Investors generally will expect you to maintain and continually improve the company's performance with respect to measures such as revenues, earnings, growth, and market shares. The concern was that if the investors become disillusioned with the company's performance, the share price will suffer and thus the company might be tempted to try to compromise long-term profitability in the interests of maintaining annual and interim reported results. For example some shareholders will expect dividends payment when the company would be best served by reinvesting the earnings.

5.7.2 - CMDA and SPSE Efficiency in the Listing Process

The respondents were also asked, *"What were their observations regarding the efficiency of the CMDA in handling their proposal and prospectus information for review?"* Table 5.9 presents the results.

Table 5.9 Efficiency of CMDA   N = 12

	Responses
Very efficient	1
Efficient	9
Not very efficient	3
Not efficient	0

The companies generally found CMDA efficient in handling their proposal and prospectus information for review and they were quite satisfied with the work of CMDA. They also found CMDA very helpful; it always had time for discussions.

Furthermore, the respondents were asked, "*What were your observation regarding the efficiency of the SPSE in handling your application to list?*" Table 5.1 below presents the results

Table 5.10 Efficiency of SPSE   N = 12

	Responses (%)
Very efficient	8
Efficient	75
Not very efficient	17
Not efficient	0

The respondents were generally satisfied with the work of SPSE in the listing process. Some companies mentioned that there was some confusion over the rules in the listing process. Companies also mentioned that the SPSE needs to be more flexible and meet companies when they need clarifications, rather than to hold meetings at the SPSE's apparent convenience.

Further, the survey provides an insight of the listed companies' satisfaction with the services of the stock exchange together with the reservations that they had initially with listing.

5.7.3 Discussion

5.7.3.1 Efficiency of SPSE and CMDA in the Listing Process

Investor confidence in the soundness of the stock market is critical to its development and this confidence is brought about by the adequacy of its regulatory body. The vision of the CMDA is " to have a thriving and efficient capital market which is the cornerstone of capital raising and investment, and is also a major contributor to equitable and sustainable economic growth in the Fiji Islands[19].

Pursuant to its vision, the CMDA is guided by the following objectives:

- To facilitate the supply of good marketable debt and equity securities
- To undertake appropriate educational and public awareness campaigns to broaden the public ownership of debt and equity securities
- To facilitate the development of appropriate institutional infrastructure and human resource capabilities required of active capital markets
- To license market participants as specified within the CMDA Act and Regulations
- To protect investors by ensuring the maintenance of fair and honest markets through the adequate supervision of market participants and enforcement of regulations where appropriate
- To promote enhanced disclosure requirements
- To collect statistics to monitor and analyze the prevailing conditions in the capital markets within the context of the whole financial system
- To formulate and advise the government on the capital markets development and the regulation
- To ensure that the authority has appropriately qualified staff and other resources to enable it to fulfill its objectives in a timely and cost effective manner, whilst maintaining high standards.

[19] CMDA Annual Report, 1998.

The results show that the majority of the companies are generally satisfied with the CMDA's efficiency in the listing process.

5.8 Summary and Conclusion

This chapter has provided an overview of the research of the listed companies together with some discussion of the findings. It is well known that the Fiji's stock market is very small relative to the size of its economy. One may then wonder to what extent these results can be generalizable outside this country. However, the results are neither surprising nor unique to Fiji. The findings show that:

- the motivational factors leading to listing decisions in Fiji are very much related to those that what have been found elsewhere. All those reasons that enhance the corporate images and reputation of the companies have been the prevalent reasons for listing in Fiji
- equity financing is not really the reason for companies to list on the stock market and this is in accordance with Myers and Majluf (1984) pecking order theory
- the probability of making an IPO is highly dependent on a good market and industry conditions
- the prominent factors relating to concerns for listing have been related to the fear of loss of business controls and fear of loss of business privacy, which are not unique to Fiji as well.

Finally, it could be said the findings of the reasons related to the motivations, timing and reservations of listing for Fiji based companies are also found in many studies reported in the literature.

Chapter Six

A Survey of the South Pacific Stock Exchange (SPSE) Target Companies Attitudes on Listing

6.1 Introduction

One of the most important decisions taken by any company is the choice of ownership structure. The two typical ownership structures that companies choose from are public ownership and private ownership. Public ownership is characterised by listed and traded shares with ownership and control among multiple shareholders, public corporate governance arrangements and reporting requirements. By contrast, private ownership is characterised by private contracting, typically with concentrated ownership and control resting with a small numbers of large investors without market listing and trading (Boot et al., 2003). These distinctively different attributes of private and public ownership raise the question: Why do some companies that qualify to list, desist from listing?

This chapter addresses that question by providing an analysis of the feedback of the questionnaire survey together with some detailed interviews followed by the summary of the chapter.

6.2 Among Unlisted Companies

The survey, which was specifically related to the potential companies that can list on SPSE, followed Dillman's (1978) mail and telephone surveys technique. This method is standard for conducting academic surveys and it maximizes the response rate of the potential respondents. The initial survey instrument was developed based on an extensive review of the literature on listing decisions. There were two target groups in this survey, the listed companies and the potential to list companies which were identified with the help of SPSE as SPSE was in consistent dialogue with them during the field work. Slight modifications were made to the questionnaires to customize for the survey. Twenty-seven companies with potential to list on the SPSE were contacted. They were selected because over the research period they were all interacting with the exchange regarding the possibility of listing.

For all the twenty-seven companies, questionnaires were mailed on 18th October 2005. Along with each questionnaire a postage-paid reply envelope was included. Questionnaires were also e-mailed to almost fifty per cent of the group under study and they were reminded a few times over the telephone regarding the response to the questionnaire to get a good response. Overall, thirteen companies responded, thus giving a forty-eight per cent response rate. Follow-up interviews were conducted with those companies that were prepared to give detailed insights into their responses. Of the respondents, five were financial institutions, six were family owned businesses and two were multinational companies. All the family owned companies and multinationals were providing commercial services. From the survey it was found out that twelve of the respondents had never applied to list on the South Pacific Stock Exchange (SPSE) while one of the respondents seriously thought about listing but then withdrew before having an IPO. The managing director of this company initially viewed listing positively. He then prepared a board paper regarding his interest in listing and presented it to its board of directors where the listing proposal was declined by the other of directors due to the fear of diluting their business ownership and losing their control over decision making.

6.2.1 What is a Family Based Business?

A key question of interest is how a family business should be defined. A variety of definitions have been provided. Some authors take as a criterion, the level of equity held by a single family (Alcorn, 1982; Barnes and Hershon 1976; Barry 1975; Perrow and Roglosky 1983). Others identify a family business on the basis of the degree of involvement of the family in the management structure (Beckhard and Dye, and Keppner, 1983). For some authors the concept of family business is related to the willingness to transmit the ownership to the next generation (Churchill and Hatten, 1987, and Ward, 1987).

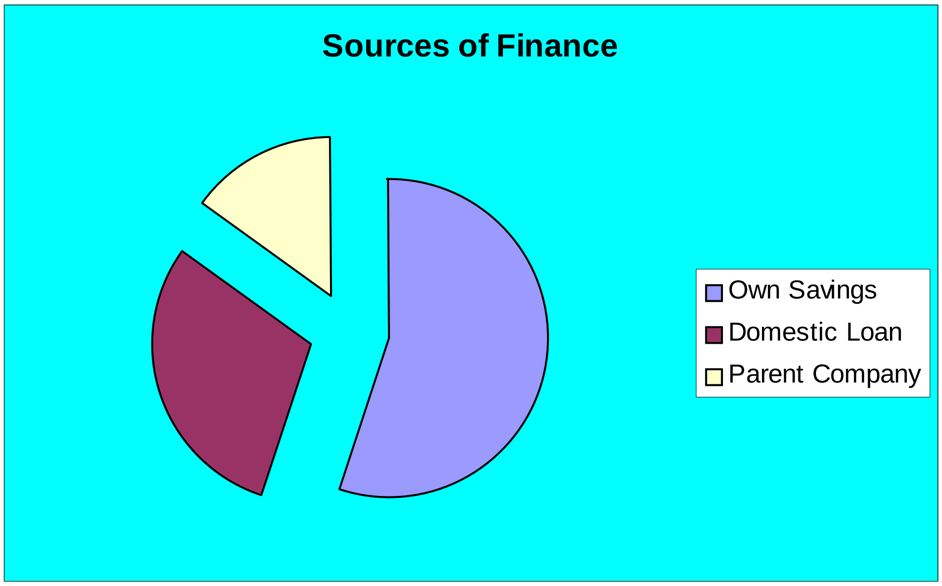
Most recently, Colli (2002) has stressed the need for a broader definition, including all cases where the family maintains an equity stake sufficient to appoint top management and influence company strategy, thereby excluding non-family management. This definition of Colli (2002) is considered to be the framework for a family based business in Fiji.

6.3 Overview of the Results and Discussion

6.3.1 Sources of Financing

The companies were asked about their sources of start-up capital. Of the respondents, seven of the unlisted companies sourced the start-up capital from their own private savings. Only four of the respondents obtained domestic bank loans while for the remaining two the source of start up capital was from the parent company. Figure 1 reflects capabilities to raise start-up financing, i.e. fifty four per cent of the potential companies are financing from their own personal savings, thirty one per cent of the potential companies are financed by the bank and the remaining fifteen per cent, are financed by the parent companies. These sources of financing can be seen as a major determinant of the status of these "unlisted companies".

Fig.6.1 Sources of Finance



6.3.2 Motivations for Going Public

The managing directors, general managers or the managers of the potential companies that may list in the future, or ones that have not contemplated listing at least for some time, were asked to indicate on a four–point scale:

" *How important would be the following motivations for conducting an IPO in the near future*?"

1 = not relevant: did not influence the decision at all

2 = relevant, but not of sufficient importance to affect the decision one way or the other

3 = important: influenced the decision, but not of sufficient importance to motivate us

4 = very important: of such importance that we were motivated to make decision based on this alone.

Table 6.1 (a) reports the results based on the response rate of the survey of the potential companies that may list in the near future. All these companies that may contemplate listing in the near future are providing commercial services and are family based businesses currently. It shows the number of respondents that view the motivations as not relevant, relevant, important or very important (i.e., response 1,2, 3 or 4).

Table 6.1 (a) Motivations for conducting an IPO for companies that may seek listing in the near future N = 6

	Not relevant (n)	Relevant (n)	Important (n)	Very Important (n)
To minimize our cost of capital	5	1	0	0
Debt is becoming too expensive	5	0	1	0
Our company has run out of private equity	4	1	1	0
To create public shares for use in future acquisitions	2	2	2	0
To allow one or more principals to diversify personal holdings	2	2	2	0
To establish the reputation of the company	0	0	5	1
To enhance the reputation of the company	0	0	2	4
To broaden the base of ownership	0	3	3	0
To improve the financial and managerial discipline of the companies	0	2	3	1
To establish a market price/value for our company	0	2	4	0
To attract analysts' attention	0	3	3	0
To increase public awareness about the company and its products	0	0	1	5

The analysis indicates that the predominant reasons for these potential companies to have an IPO if ever in the future will be:

- to enhance the reputation of the company
- to increase public awareness about the company and its products.

Table 6.1 (b) reports the results based on the responses to the survey of those potential companies that may not contemplate listing in the near future. The companies that fall in this category are financing companies and multinational companies.

Table 6.1 (b) Motivations for conducting an IPO for companies not contemplating listing in the near future N = 7

	Not relevant (n)	Relevant (n)	Important (n)	Very Important (n)
To minimize our cost of capital	5	2	0	0
Debt is becoming too expensive	5	2	0	0
Our company has run out of private equity	5	2	0	0
To create public shares, use in future acquisitions	2	3	2	0
To allow one or more principals to diversify personal holdings	2	3	3	0
To establish the reputation of the company	0	0	5	2
To enhance the reputation of the company	0	0	3	4
To broaden the base of ownership	0	4	3	0
To improve the financial and managerial discipline of the companies	0	3	3	1
To establish a market price/value for our company	0	2	5	0
To attract analysts' attention	0	2	5	0
To increase public awareness about the company and its products	0	0	3	4

The analysis also indicates that the predominant reasons for these companies possibly making an IPO in the future will be:

- to enhance the reputation of the company
- to increase public awareness about the company and its products.

These responses are very similar to the responses of those companies that may seek listing in the near future. This shows that enhancing the reputation of the company and increasing its visibility is something that all companies are looking at as a reason to list.

6.3.2.1 Companies' Financing Choice

The factors that pertain to financing of companies, for both groups that are contemplating to list in the near future and for those not contemplating listing in the near future, are not considered strong enough to motivate companies to list on the stock exchange.

The managing director of one of Fiji's oldest family based businesses (which at one time very seriously thought of being listed) said that:

> Financing the company's growth and development or even for its successful operation is not an issue when considering listing as the cash flow of the business is very good and if we need external financing we prefer debt rather than equity financing. For us the costs associated with equity financing outweigh its benefits and the processes and procedures for debt financing are much easier to handle.

During discussions with other companies the same observations were made. None of the respondents thought that financing is a current problem for them or financing would be a reason to seek listing in the future.

These observations are in harmony with the Pecking Order Theory pioneered by Myers and Majluf (1984). In their seminal paper they showed that companies prefer to finance their projects from the internally generated cash flows. When this source of financing is exhausted, they move on to debt. Issuing additional equity is the most expensive means of financing as it suffers the most from information asymmetries between managers, existing shareholders and potential new shareholders. In view of fixed payments, debt is already less sensitive to the need for disclosure, while internally generated resources do not suffer at all from issuing costs. Moreover, perhaps the preference for debt financing in Fiji is explained in part by entities' familiarity with the procedures pertaining to securing debt financing.

Another important company characteristic that might influence capital structure is profitability. The Pecking Order Theory of Myers and Majluf (1984) predicts that companies prefer financing through retained earnings, then move to debt and as a last resort issue new equity. Most of the companies under-study have a very good history of high profitability records and this is another reason that they do not see financing as a reason to consider listing for their perceived growth prospects, as all the companies under study are considering future expansions and developments.

6.3.2.2 Company Reputation

The results of the study indicate that factors relating to visibility, image, status and reputation are very important and these easily outweigh the financial matters. The respondents felt that going public may increase a company's visibility due to the media coverage. Going public also may a have an effect on the reputation of a company as relationships with financial institutions, large customers, professionals and potential industrial partners would be improved and strengthened. The main motivation that was apparent from the discussions and the questionnaire response was if the company decides to list on the stock exchange, the increased reputation would be associated with a higher status of the company.

The majority of the respondents said:

> Once we are listed on the stock exchange our company's name would be more familiar to the public, our product and service would also get more consideration and thus these would help with the company's operation.

6.3.2.3 Managerial Discipline

The majority of the companies see enhancing managerial discipline as a relevant factor but not as a very important factor for the motivation to list. The majority of the companies mentioned that because they employ external auditors they are quite confident with the quality of their own records and with the annual reports. The family based businesses too appeared to be quite confident with the quality of their record keeping strategies, with their internal control procedures and with their financial reports.

The managing director of one of the family based businesses said:

> I am very confident that my company's records are very transparent as we employ outside auditors to check and verify our records and provide appropriate opinions.

In addition to this, the fact that the control of the business is typically vested in a small number of people means that CEOs' behaviour is therefore efficiently monitored. This also helps in reducing the moral hazard behaviour of CEOs. Recent academic research points in the same direction by saying that when family members serve as CEOs, performance is quite good (Anderson & Reeb, 2003).

6.3.3 Timing for a Possible IPO

Furthermore, the respondents of the unlisted companies were asked to indicate on the four–point scale,

" To what extent would the following influence the timing of a possible IPO?"

Table 6.2 reports the responses. It shows the number of respondents regarding their views on the timing of a possible IPO.

Table6.2 Factors influencing the timing of a possible IPO N = 13

	Not relevant (n)	Relevant (n)	Important (n)	Very Important (n)
Overall stock market conditions	0	0	4	9
Industry conditions	0	0	4	9
Other good companies were currently going public	9	4	0	0
We needed the capital to grow	0	3	8	2

All companies (whether or not contemplating future listing) perceived overall market and industry conditions as strongly influencing the timing of a possible IPO. For two of the companies the capital needed to support the company's growth is also seen as an important factor when timing an IPO in the future. One of the companies mentioned that:

> If in the future our companies consider expansion of the business where we would need more financing then making an IPO would be an option for us.

This is also evident in table 6.3(a) where there are two companies, which have mentioned that when their companies run out of private equity they see that as an important factor in seeking listing.

These responses of potential companies regarding factors to consider for timing an IPO are very similar to the responses of the listed companies. These views of listed and unlisted companies regarding the factors influencing when to time an IPO, support the proposition that management pursue windows for opportunities to have IPOs.

6.3.4 Reservations in Going Public

All the potential companies were also asked to state on the four-point scale *“ What concerns (or reservations) are you currently having in going public?”*

Table 6.3(a) presents the results. It shows the responses of those companies that may seek listing in the near future and view the concerns or reservations as not relevant, relevant, important or very important (i.e., response 1,2, 3 or 4).

Table 6.3(a) Reservations for listing of companies that may seek listing in the near future

N = 6

	Not relevant (n)	Relevant (n)	Important (n)	Very Important (n)
Meeting the disclosure requirements for a prospectus	4	2	0	0
Meeting the disclosure rules of the stock exchange	4	2	0	0
The cost associated with the going public and listing process	3	2	1	0
Dealing with the company's reorganization	3	2	1	2
Fear of loss of control	0	0	2	4
Fear of disclosing the financial performance to competitors	0	0	2	4
Dealing with the tax issues	5	1	0	0
Fear of public criticism and scrutiny	5	1	0	0
Lack of confidence in the market	4	2	0	0
Lack of corporate advisors	6	0	0	0
Obtaining the major shareholder support	3	2	1	0

Table 6.3(b) presents the results of those companies, which may not seek listing in the near future.

Table 6.3(b) Reservations for listing of companies that may not seek listing in the near future N = 7

	Not relevant (n)	Relevant (n)	Important (n)	Very Important (n)
Meeting the disclosure requirements for a prospectus	5	2	0	0
Meeting the disclosure rules of the stock exchange	5	2	0	0
The cost associated with the going public and listing process	5	2	0	0
Dealing with the company's reorganization	3	2	1	1
Fear of loss of control	0	0	3	4
Fear of disclosing the financial performance to competitors	0	0	3	4
Dealing with the tax issues	5	2	0	0
Fear of public criticism and scrutiny	5	2	0	0
Lack of confidence in the market	4	2	0	1
Lack of corporate advisors	6	1	0	0
Obtaining the major shareholder support	3	2	2	0

6.3.4.1 Legal requirements for Listing

Meeting the disclosure requirements for a prospectus, meeting the disclosure rules of the stock exchange and the costs associated with going public in terms of fees and management's time are factors that do not appear to have any significant effect on a company's choice to list.

One of the managers of a financial institution said that:

> We have never approached the stock exchange or Capital Markets Development Authority for listing requirements and as a result have no major knowledge on the prospectus requirement and even if we ever seriously think about listing these requirements should not be of any hindrance to the decision making.

6.3.4.2 Change of Control

It is clearly evident from the results that for those potential companies, fear of loss of control and fear of disclosing the financial performance to competitors are pertinent factors in making the decision to list or not to list.

The separation of ownership and management is often said to be a fundamental characteristic of the modern capitalist corporation. This separation issue first described by Berle and Means (1932), leaves managers of such a company in effective control of the company's operations.

The managing director of one of the family based companies that once very seriously thought about listing said:

> Upon discussion with the family members regarding listing, they never expressed any interest in changing the business's family ownership structure and all of them said that they want to stay private to maintain control. They said that they do not have to focus on increasing the earnings only to increase the share price but they want to focus on growing the business.

In another interview the president of a family business said:

> We stay private because of our pride of ownership. The company does not have specific hurdle rates to exceed when considering new products or investments. Management makes investment decisions based on marketing potential, not by the "numbers crunching" of financial analysts. New projects are approved based on their growth potential, not on their effect on earnings. Moreover, we stay private because the company has strong loyalty to its employees. When we have to, we make tough decisions and our decisions are not guided by profits. If we go public there would be more 'bosses' and people making decisions about employees, products and investments. This could change the entire character of the company and the family could lose its pride of ownership.

These managerial perspectives on the choice of private ownership structure lead to the observation that the decision-makers care a lot about their degree of autonomy. This matters a lot to them not because of any innate preference for independence or any private benefits of control but rather this determines the ability to make decisions that they view as maximizing the company value. It is understood that possible disagreement arises not from a divergence of objectives (or agency problems) between the decision-makers and investors, but from differences in opinions especially related to the profits of the companies.

The fear of change in the structure of ownership and in the controlling shareholder also provided important insights into the motives to go public for the listed companies. But the assurance that retaining at least 51% of the shares will ensure their control and a wide distribution of shares will ensure that there is no concentration of voting powers in a few hands helped them to reduce their immediate threat to their losing control.

From the discussions it appears that management of these private businesses are more likely to maximize company value, enabling them to personally realise any financial and economic gains. They may be able to pursue a unique set of management strategies and adopt different management styles that facilitate the development of more efficient approaches to business management and problem solving, such as better management, quicker decision processes and the commitment of qualified personnel.

One of the respondents from a family based business said:

> In this type of ownership, decisions are taken through efficient, informal channels and the use of family language makes it more efficient.

6.3.4.3 Loss of Business Confidentiality

The fear of disclosing the financial performance to competitors is also seen as a fundamental factor by these potential companies in making their listing decisions. The same has been true for the listed companies. From the survey, sixty-two per cent of the potential companies that could list regarded losing the business confidentiality as a very important concern when thinking about listing.

The general manager of one on the multinational company’s said:

> There are some business techniques that we would never want to reveal to the competitors and we feel that listing on the stock market means that we would lose all these confidential ways of running the business and this might also lead to losing the current market share that we have.

Raising funds in the public capital markets requires disclosure of company-specific information, which can be costly especially in the presence of competitors that are also able to observe publicly, disclosed company information. But this is not true for debt financing situations. For example, James and Wier (1988) said that 'in the case of debt financing, companies may not wish to reveal to the public the information that lenders require.' For example, suppose a company is raising capital for an investment that involves a new marketing strategy, the value of which would be reduced if competitors learn of it prior to its introduction. Borrowing from banks or using the company's retained earnings helps the company to keep its strategy secret.

These observations show that borrowers turn to private debt financing because this avoids public dissemination of key information about potentially profitable projects. Theory anticipates that information conveyed to private lenders is less likely to be leaked to the borrowers' competitors (Yosha, 1995). Those companies with more sensitive information are deterred from going public if the costs of a public offering are sufficiently high, (ibid). Campbell (1979) has also pointed to confidentiality as a deterrent from getting funding in the public markets.

6.3.4.4 Other Factors

All the respondents mentioned that factors such as dealing with the company's capital reconstruction issues, with tax issues, fear of public criticism and scrutiny and lack of corporate advisors are not really going to have an effect on listing decisions. Lack of confidence in the stock market is also not a concern for the majority of the companies.

The majority of the respondents replied that:

> Looking at the size of the economy, the progress that the stock exchange is making is quite reasonable.

One multinational company is the exception. The general manager of this company said that:

> The Fiji stock market is a very thin and volatile market and the right investment climate is missing, the political situation is also a deterrent to list in Fiji.

6.3.5 Costs of Listing

Furthermore, the listed companies were asked about their views on

“ *What is your opinion regarding the costs in dollar terms associated in meeting the regulatory requirements of CMDA and SPSE, which must be satisfied before going public and listing”*.
All the respondents indicated that their companies had never approached the CMDA or the SPSE for listing and as a result have no major access to these sorts of fees and costs.

6.4 Reasons and Reservations for Listing: Reality as a Realm of Symbolic Discourse

Chapter four of this dissertation outlines the research method and states that the appropriate paradigm this research falls under is the fourth paradigm of the Morgan and Smircich framework, which views reality as a realm of symbolic discourse. This section attempts to relate the interpretation and evaluation of this study to this paradigm, which views reality as a realm of symbolic discourse.

The ontological assumption here is that people view the world through the processes of interaction and negotiation, then form impressions through these interactions. Reality is not seen as rules in themselves but as embedded in meanings that people put upon situations, people and events.

The motivations and the reservations that need to be considered for both the listed and the likely-to-list companies are seen to be based on the entrepreneur’s ability in evaluating the potential benefits and potential costs of listing. As mentioned in chapter four, that companies exist in an environment characterized by ever-changing social, political, economic and technological pressures, so the factors that affect listing decisions also are not seen as static but are influenced by the ever changing environment. The factors may not change much over time, but presumably their relative importance may do so. The survey shows that those factors that lead to listing are not given such a high degree of importance by the current group of potential companies. For example, all the factors that were seen to be prominent in motivating the listed companies to list were not seen as so important by the companies identified as potential listers by the SPSE.

The study reveals that the bulk of the reasons that affect to list or not to list decisions are common to the literature findings but the same factors are not common to all companies.

There is an overlap of most of the factors but some factors specifically relate to one or very few companies, as shown by figure 3.2. The findings show that for companies, that are family-based, factors that deal with organizations' confidentiality and degree of business control are quite pertinent in influencing their listing decisions. For these sorts of companies the fear of business confidentiality really needs to be swept away before listing could be considered.

The stock market together with its regulatory body have been carrying out an intensive campaign on the benefits of listing and investing in shares but this strategy has not really been a success in encouraging listing. The companies identified, as potential listers are not really motivated to list by the current services and benefits provided by the Fiji stock market. It can be seen that these companies evaluate their listing decisions based on their own analysis of costs and benefits of listings.

These attitudes of the companies is demonstrated by the use of the Morgan and Smircich fourth paradigm in explaining how people view reality in the context of listing on the stock market and how these views and the reasons change with the changing environment.

On the basis of the research findings it can be said that listing on the stock market is dependent on how the companies view the benefits of listing and how it compares with the costs. The companies therefore in making their decisions to list have to use their entrepreneurial abilities effectively and be capable of weighing the costs of listing against the benefits.

6.5 Summary

In this chapter, the results and discussions of the survey of the potential companies that can list on the stock exchange are provided. The results show that going public is something that has to be chosen by the potential and interested companies.

In the past, as shown by the responses of the listed companies, companies seemed to have a tendency to turn to the IPOs as a resort to compensate for lack of other sources of finance. However, evidence from the research suggests that going public can do much more for a family business by enhancing the reputation of the business and increasing public awareness about the company and its products, as opposed to financing growth or supporting the managerialisation of the business. These companies' greatest trepidation is the loss of control of ownership and loss of business confidentiality. Meeting the stock exchange requirements was considered to be a relevant factor in listing but this factor was not seen as an obstacle in the listing decision by any of the potential companies.

Hence, it can be stated that companies consider listing according to what they see as the benefits of listings rather than what the stock market offers them.

Chapter Seven
Conclusion

7.1 Introduction

This chapter draws on the analysis and findings of the empirical research. Based on these findings and the literature on listing decisions by companies, the current challenges faced by the stock exchange of Fiji are identified. Following this, the recommendations for overcoming these challenges are suggested and the final section of this chapter discusses the limitations of the thesis with a summary of the entire thesis.

7.2 Challenges Faced By the South Pacific Stock Exchange

7.2.1 Increasing Listing at the SPSE

Up to the year 2005 there had been 16 companies listed on the SPSE. Table 5.11 shows the number of listings over the years. In the years 1999 and 2003 there were no new listing. Between the years 2001 and 2005 there have been seven listings with one merger. This limited supply of new equities in the capital market has restricted the use of the equity market as a source of financing.

As mentioned previously, the most difficult hurdle for the SPSE is increasing the number of medium-sized and large family-owned businesses and attracting the regional country listings at the SPSE. Up to the time of this research exercise there have been no regional country listings and some consideration needs to be given by the SPSE and the CMDA as to why this is so. The majority of the businesses in Fiji are family owned where non-family members are rarely given the opportunity to assist in their development whether in the form of management expertise or indeed by providing capital. Management, accordingly, tends to reflect a self-perpetuating chain where sons and daughters occupy executive positions. These family-owned businesses are reluctant to dilute ownership and are hesitant to disclose confidential matters regarding their companies.

When companies are considering listing on the SPSE, the factors inducing listing include:

- to enhance the reputation of the company
- to increase public awareness about the company and its products.

The listed companies view listing as a marketing device and enhancing their companies image and publicity. They think that trading publicly could add value to the companies, as this would inspire more faith in the companies from other investors, customers, creditors and suppliers.

On the other hand the factors inhibiting listing include:

- fear, particularly among family owned businesses, that they will lose control if they open up companies to public ownership.
- reluctance to disclose more information.

The risks associated with additional disclosure in terms of disclosing confidential information are considered to be very high and are seen as major impediments to listing on the SPSE.

Moreover, the availability of bank finance has made it fairly easy for those companies that have a good profit history behind them to obtain bank finance and besides this, liquidity in Fiji's finance sector is high. In addition to this, the ability of companies to raise start-up capital from their own savings or borrowings from parent companies has reduced the need to raise more capital through equity financing. The study shows that both subsidiaries under study very strongly said that additional financing is no concern, as the parent companies have always assisted them when required.

7.2.2 Listing Requirements

According to the listed companies, the present listing requirements are quite stringent with little flexibility in the rules of listing. SPSE does allow for some waiver of certain listing requirements upon special request by the listing company. The CEO of the SPSE has the authority to waive some requirements in special cases. However, not all requests are considered by the SPSE and this could be seen as one of the contributing factors to the lack of listing or could be a contribution to the elimination or disqualification of many business enterprises in Fiji to list. But in comparative terms this might not hold true. Other developed and developing economies, such as Australian, New Zealand and US stock exchanges have more demanding listing requirements[20] where companies do find the listing requirements onerous, but still they consider listing. The unlisted companies did not have much to say on this as none of them had really studied the listing requirements, except one of the potential to list companies mentioned that disclosure of all the information to the public was what had really inhibited them from listing.

7.2.3 Liquidity

The trends in the market performances in chapter 4 show that the SPSE is a small, illiquid and volatile market. It is a highly concentrated market with most of its activity centred on a few listed companies. The low turnover ratio, which is less than 5.5%, may be attributed to the limited floatation of shares in the market. In addition to this, shareholders might be employing a buy and hold strategy and together with this, a high percentage of the shares are held under family control or are in the hands of institutional investors. Shares held by these parties will not be actively traded. Moreover, the literature assumes that the utility of investors is determined by the return and risk characteristics of the investment, (Brau and Fawcett ,2004). The alternative investment opportunities such as the real estate investment, unit trusts and superannuation may encourage the investors to invest their savings in these places, as they are more familiar with these markets.

7.2.4 Public awareness

The survey identifies lack of public awareness on the role, functions and operations of the stock exchange and the Capital Market Development Authority (CMDA) among potential investors and business entities. The listed companies highlighted this shortcoming but it is seen as a major problem amongst the unlisted companies. Fiji has many small islands and many of these islands have never come across any special marketing regarding the benefits of investing in shares or being listed. The CMDA and the SPSE have been initiating some concerted efforts through public seminars and by using the media but they do not seem to market themselves successfully to potential investors or listers. To date CMDA and SPSE have been unsuccessful in attracting any listings and investor participation from the neighboring Pacific Islands. This lack of adequate knowledge by the majority of the interested investors about the SPSE’s operations could be a major hindrance to corporate

[20] For example, at the New Zealand stock exchange if any listed company is not compliant with the rules and regulations of the stock exchange, they are initially suspended and then delisted. But in Fiji’s case, when and if there is non-compliance then the company is fined and suspended only.

participation in the stock market. This may be attributed to the financial and human resource constraints.

7.2.5 Investment Climate

The results of the study show that the political and economic uncertainties of the country have also been seen as major determining factors by the potential listers, which have facilitated the decline in the stock market confidence of these potential to list companies.

7.2.6 Type of Trading

Some see the current manual trading system employed by the SPSE as slow. The fact that the SPSE is not linked to other international markets outside the South Pacific can also limit its growth, liquidity and expansion of the market.

7.2.7 Tax Incentives

While existing listed companies are exempted from paying taxes on dividends, there are no tax incentives to attract companies in their initial stage of listing. A number of developing countries have used tax incentives as the preferred way to encourage more companies to list and to stimulate the development of the market. For example, in Mauritius, corporate listings have been induced by tax incentive schemes whereby the listed companies and their shareholders were lightly taxed compared to other corporates.

The fiscal incentives available in relation to the Stock Exchange of Mauritius (SEM) are:

- exemptions from tax for dividends received from listed companies (including distribution to unit holders and interests on bonds)
- exemption from tax gains from the sale of shares and debentures quoted on the official list
- deduction of 10% of the actual amount paid in cash may be claimed by companies (other than the tax incentive companies) subscribing to the share capital issued by other listed companies in the income year in which the investment is made, as well as the following two years
- companies listed on the official list pay tax at 24.5% when the standard tax rate is 35%.
- free repatriation of capital

- foreign companies and offshore funds pay only 50% of the listing fees.

Fiji may need to consider such incentives in order to attract more companies to the stock market, as most of these companies do not have difficulty in accessing loans directly from the financial institutions.

7.2.8 Resources Availability

There is a general scarcity of resources at the SPSE. The availability of resources like finance, human expertise and technology is really inhibiting the development of Fiji's stock market. Discussion with the CEO of the stock market clearly suggests that this unavailability of the resources is considered to be one of the most prominent challenges currently facing Fiji's stock market. This is also considered to be the obstacle in terms of upgrading the stock market because without the availability of finance, human expertise and technology it is really difficult to introduce changes in the stock market.

7.2.9 Location

While the current location of the SPSE is in Suva's central business district, it is placed on the 2nd floor of one of the largest Plaza in Fiji. Its location leads to the SPSE's lack of visibility. It is not seen by anybody other than those who consciously seek it out. This current location is seen as a possible factor in its slow growth.

7.3 Recommendations

In view of the challenges discussed with regards to the SPSE, the following recommendations are framed.

7.3.1 Education

The SPSE together with the CMDA should increasingly play an educational role and embark on a vigorous campaign to market itself and educate potential investors about the opportunities available in the market and how to use them effectively. When people are not well aware of the operations of the SPSE, there is a tendency to go for known and familiar investments such as bank savings accounts or real estate investments or investing in the six managed funds in the Fiji market (Colonial Income Fund, Colonial Income and growth Fund and Colonial International Fund, Fijian Holdings Unit Trust, Kontiki Growth Fund, Unit

Trust of Fiji). A more active campaign can deepen and widen peoples' knowledge of what can be done in order to foster one's wealth. This may be achieved through hiring members of staff who are very well trained in marketing, research and market analysis.

Perhaps the dissemination of knowledge could be strengthened through the diversification of communication channels including the media (radio, television and newspapers) where a special session can be devoted to investment in shares, distribution of literature to key stakeholders, having some face to face meeting with potential investors and educating them about stock markets. The CMDA should try to set a branch office at least in the major towns of Fiji to reach people in the rural areas. The SPSE together with the CMDA could look for donor partnerships to fund these types of market development programmes, as the availability of finance has been an inhibiting factor in SPSE's development. The government of Fiji has been providing funds to the SPSE and CMDA to carry out the marketing and development programmes but some more financial assistance would really help with the marketing and development of the stock market.

One of the respondents mentioned that investor education may also be undertaken through incorporating information on investment and the capital markets in the secondary schools and colleges curriculum to enhance the awareness to the younger generations and create some sort of interest in equity investment at an early stage.

7.3.2 Listing Requirements

The survey highlighted the perceived stringent listing requirements as a deterrent to listing on the SPSE. The SPSE might consider separate listing regulations for different categories of business. For example, the family owned businesses in Fiji are greatly concerned about the loss of control of ownership and if the listing rules somehow helps them to allay this fear then this should encourage more listing. One of the managing directors of a family owned business said :

> There is a real need of some 'pep talk' by the CMDA and the SPSE which could erode our fear of loss of control of ownership and decision making abilities when we go public.

7.3.3 Stock Market Integration with the region

The SPSE needs to encourage the regional listings, which are listings from neighbouring Pacific Islands, before moving to cross-border listing. These regional listings will and are expected to lead to capital outflow when the entities listed are highly profitable. Once there are more listings at the SPSE then cross-border listing will have a positive impact on the economy. Without having a number of sound investment prospects listed on the SPSE cross-border listings may encourage capital outflow from the country if the companies listed are operating on a bigger scale and have achieved economies of scale and are more profitable, as any good investor will want to invest in this type of entities. This may also have an impact on the liquidity of the shares currently traded here in Fiji. Furthermore, SPSE needs to add more listings to eliminate unsystematic risk in the market.

7.3.4 Regulatory Environment

The regulatory bodies, the SPSE and the CMDA, are seen as being a heavy handed. It is suggested that if the CMDA is seen as an effective partner in growth and development of the stock market then it must adopt a more supportive approach and be a catalyst in the development of what is currently a very small stock market. It must see itself not as a supervisor of the companies listed but as an agent of change, of encouraging more companies to choose to go public, of being an advocate with the tax and fiscal authorities for increasing incentives for going public. On the whole, the SPSE, which is still at the very early stage of development and has the potential to develop, really needs strong support from its regulatory body, the CMDA.

7.3.5 Market Structure

Currently, the SPSE is active in one product market, selling and buying of shares. However, trading in instruments like bonds become more active, it can give a boost to Fiji's stock market. This is a place where the regulatory body could take the lead role rather than waiting for the stock market to activate the bond trading. Government and its agencies like the CMDA in developing countries have a major role in nudging institutions towards desirable development paths rather than waiting for the stock exchanges to move in the right direction of their own account. A well integrated and customized financial information service that provides timely and accurate information service to individuals and corporate institutions is necessary for the development of bond markets.

7.3.6 Over–The–Counter (OTC)

An OTC is a securities market that exists for securities not listed on stock exchanges. It may apply to unlisted limited liability companies, private companies, financial institutions and banks. Currently the operation of OTC market in Fiji has resulted in the existence of an informal and inefficient market where investors intending to trade in unlisted securities search for buyers on their own, maybe through bankers or other sources. Taking securities traded over the counter onto the market can be expected to improve market efficiency.

7.3.7 Trading system

Reforms in the trading system of any stock exchange are aimed at improving stock market performances by increasing liquidity and transparency, enhancing efficiency and reducing volatility together with the trading costs. Prior studies have shown that a reform in the trading systems in more established stock markets has generally shown a positive impact, creating gains in efficiency of the price discovery process, increased liquidity and lower volatility. However, there are fewer studies on the emerging stock markets where the results are more mixed. One of the features of the emerging stock markets is that many of the stock exchanges are of recent origin and relatively few stocks are traded. The SPSE can be one example. As mentioned in chapter 2 of this thesis, the development of the stock exchange in Fiji is seen to fit a new institutional economics enhanced by insights from sociological neoinstitutionalism, where the situational and societal needs are considered. Here the cultural values are such that the majority of investors for whom a stock exchange is an unfamiliar/ unknown concept, would want to observe and understand what is happening in the stock market. How the trading actually takes place and the prices that they receive for all these, the current trading system is more appropriate than the automated system.

Hence, the current amount of trade and the cultural values may not really justify an electronic system now and the current trading system may be considered as a more visible/transparent system. At the same time, reforming the trading system in the future, depending on the amount of trading, liquidity and listing, could be something that the SPSE should keep in mind.

7.3.8 Privatization

Many studies have conclusively documented a direct link between privatization and stock market development. These studies implied that governments choose privatization as a means of developing their stock markets. Claessens, Djankov, and Klingebiel (2001) investigate the development of stock markets in a group of transition economies and highlight the role of privatization for stock market development in this sample of countries. Privatization in Fiji can also help to develop its stock market because ATH's privatization had a very significant effect on Fiji's stock market in terms of its market capitalization. Privatization will provide a significant increase in the shares traded on the SPSE. The distribution of a substantial amount of equity resulting from privatization will also contribute enormously to the mobilization of additional private savings for beneficial investment.

7.3.9 Location

A more suitable location for the SPSE would be one that is more visible and easily accessible by interested investors. The stockbrokers should then be shifted near the stock exchange so that the interested investors get easy access to the exchange and to the investment advisors.

7.4 Conclusion

Many of the developing countries are working towards reforming and deepening their financial systems through the expansion of their stock markets in order to improve their ability to mobilize resources and efficiently allocate them to the most productive sectors of the economy. Fiji is no exception to this.

Significant development has been seen in Fiji's stock market in terms of its market capitalization and volumes of trades. However, it is still facing many challenges in its development and growth, so it becomes very important to see that the legal, technical and operational structures are in place for its efficient functioning, as in stock markets in developed economies.

7.5 Limitations of the Research

It is important to note and appreciate that every research strategy has potential limitations and as such the researcher needs to consider these limitations when using the strategy and make attempts to minimize their impacts. Burns (1996) identifies interview bias and prejudice as problematic, while Silverman, (1993) suggests difficulties and inherent problems of interpretations.

Through the interview process the interviewees were ensured confidentiality, as Scapens (1990) raises concern about interviewee confidentiality. To consider Burns' (1996) arguments on time consumption and skills of the interviewer, a considerable amount of time was spent on designing the questionnaire as three sets of questionnaires were designed for three separate groups of companies to survey.

Since this was a qualitative exercise there may exist some interpretation problems. To minimise these problems there were some follow-on interviews after the questionnaire survey.

In regard to the research conducted on listed companies, the questionnaire was directed to officers at top level management. Follow up interviews were conducted with an officer from the same level of management. However, in some cases the management has changed after listing and this may have affected the interview or the questionnaire responses.

This research was based on the case study model and there was no rigid scientific testing of the results and hence considerable care was taken while interpreting the results.

7.6 Summary of the entire thesis

This dissertation has highlighted how stock markets can be developed. It has looked at the factors that are responsible for the stock market development. The number of listings on the stock market has been considered to be one of the best quantitative indicators and may be the most appropriate indicator of a stock market's size and its development, so the major component of this study is focused on the listing concept. Chapter one of the thesis has introduced the concept of stock market development and has highlighted the research question of this study with its justification. Chapter two provided an in-depth discussion of the creation of Fiji’s stock market and showed the market performance trends since its formal establishment. The chapter shows how the stock market has developed over time. Chapter three focused on the literature review of the factors responsible for stock market development. It showed the cross-country difference and the stock market development using the legal, political and the cultural approaches and it also shows the relationship between stock market and economic development. Chapter four looked at the issues of methodology and methods of research and outlines the need for using the fourth paradigm of the Morgan and Smircich framework, where reality is seen as a realm of symbolic discourse. It also provided reasons for using the naturalistic case study based research, and outlines the method of data collection.

Chapters five and six focused on the results and discussions of the main study. Chapter five provided the analysis and discussion of the listed companies surveyed, their reasons for listing and their initial reservations before listing. Chapter six focused on the potential companies listing decisions. Chapter six concludes that companies are not looking for the equity market as a source of financing, but listing is considered as a means of enhancing their business reputation and creating more awareness about their products and services. In other words to enhance the business visibility would be the main reason to become public for these companies.

This last chapter highlights some of the important current challenges faced by Fiji’s stock market and provides some recommendations that can help the stock market to develop and become more visible.

Finally, the thesis concludes that increasing listings at the Fiji’s stock markets is crucial for its development. Therefore, it is critical that all those factors that inhibit listings in Fiji should be carefully looked at and the SPSE, its regulatory body, CMDA and the government should try to encourage more listings.

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APPENDICES

Appendix One

Copies of Questionnaire for the three different groups surveyed

QUESTIONNAIRE #1

(for the listed companies of Fiji)

This questionnaire and some interviews form part of my research for the MA thesis project on the topic of stock market development. Please note that the identity of the respondents would be kept confidential

1. How important were the following motivations for conducting the IPO (Initial Public Offering?

   1 = not relevant: did not influence the decision at all

   2= relevant, but not of sufficient importance to affect the decision one way or the other

   3= important: influenced the decision, but not of sufficient importance to motivate us to make the IPO by itself

   4=very important: of such importance that we were motivated to make the IPO on this basis alone

   (please circle the number)

To minimize our cost of capital	1	2	3	4
Debt is becoming too expensive	1	2	3	4
Our company has run out of private equity	1	2	3	4
To create public shares for use in future acquisitions	1	2	3	4
To allow one or more principals to diversify personal holdings	1	2	3	4
To enhance the reputation of the company	1	2	3	4
To establish the reputation of the company	1	2	3	4
To broaden the base of ownership	1	2	3	4
To improve the financial and managerial discipline of the company	1	2	3	4
To establish a market price/value for our company	1	2	3	4
To attract analysts' attention	1	2	3	4

   Others (please specify) --

2. To what extent did the following influence the timing of your possible IPO?

   1 = not relevant: did not influence the decision at all

   2= relevant, but not of sufficient importance to affect the decision one way or the other

   3= important: influenced the decision, but not of sufficient importance to motivate us to make the IPO this time

   4=very important: of such importance that we were motivated to make the IPO on this basis alone *(please circle the number)*

Overall stock market conditions	1	2	3	4
Industry conditions	1	2	3	4
Other good companies were currently going public	1	2	3	4

Others (please specify) --

3 a. By having an IPO, to what extent has your objective mentioned in question 1 have been met?

(place a tick)

Met Met to some extent Not Met

b. If not met, why?____

4. How important were the following in making a decision to list?

1 = not relevant: did not influence the decision at all

2= relevant, but not of sufficient importance to affect the decision one way or the other

3= important: influenced the decision, but not of sufficient importance

4=very important: of such importance that we were motivated to make the compliance listing on this basis alone

(please circle the number)

To introduce a greater financial and managerial Discipline into the company	1	2	3	4
To create a more liquid trading market for the Company's shareholders	1	2	3	4
For share value appreciation	1	2	3	4
To improve the company prestige	1	2	3	4
To create a market for the company's future share issues	1	2	3	4

Others (please specify)---

5. What concerns (or reservations) did you have in going public?

1 = not relevant: did not influence the decision at all

2= relevant, but not of sufficient importance to affect the decision one way or the other

3= important: influenced the decision, but not of sufficient concern

4=very important: is a major concern to influence the decision

alone *(please circle the number)*

Meeting the disclosure requirements for a Prospectus	1	2	3	4
Meeting the disclosure rules of the stock Exchange	1	2	3	4
The cost associated with the going public and Listing process	1	2	3	4
Dealing with the company's reorganization	1	2	3	4
Fear of loss of control	1	2	3	4
Fear of disclosing the financial performance to Competitors	1	2	3	4
Dealing with the company's capital reconstruction Issues	1	2	3	4
Dealing with the tax issues	1	2	3	4
Fear of public criticism and scrutiny	1	2	3	4
Lack of confidence in the stock market	1	2	3	4
Lack of corporate advisors	1	2	3	4
Obtaining the major shareholder support	1	2	3	4

Others (please specify) ---

6. a. By getting listed to what extent were your objectives mentioned in question 4 met?

(place a tick)

Met Met to some extent No met

b. If not met , why? ____

____

7. What is your opinion regarding the costs associated in meeting the regulatory requirements of CMDA and SPSE, which must be satisfied before going public and listing.
(please place a tick)

1. No costs associated with compliance
2. Minimal costs of compliance, we did not have to weigh the costs against the benefits in making the listing decision
3. Material costs of compliance, we had to weigh the costs against the benefits
4. Costs were onerous, the costs of listing clearly outweigh the benefits

b. How do you see the following costs associated with listing?

1 = not relevant: did not influence the decision at all

2= relevant, but not of sufficient importance to affect the decision one way or the other

3= important: influenced the decision, but not of sufficient concern

4=very important: is

alone *(please circle the number)*

Placing the financial reports in the public domain	1	2	3	4
Meeting the increased disclosure required under SPSE listing rules	1	2	3	4
Loss of business confidentiality	1	2	3	4
Bad market/industry conditions having the effects on the company's prestige	1	2	3	4

b. Do you have any personal opinion regarding the requirements?
If Yes what is it?

8. What is your view regarding the efficiency of the CMDA in handling your proposal and prospectus information for review.
(place a tick)

Very efficient
Efficient
Not very efficient
Not efficient

9. A. What is your view regarding efficiency of the SPSE in handling your application to list?
(place a tick)

Very efficient
Efficient
Not very efficient
Not efficient

b. Do you have any other comment about SPSE's handling of your application.

If Yes, what is it?

10. After going public and getting listed on the stock exchange how have the following changed for the company?
(place a tick)

	Improved	Deteriorated	No Change
Access to capital			
Value of the companies' shares			
Company prestige			
Financial and Managerial discipline			
Corporate Governance			

11. Is the company's current share price really reflecting its financial performance?

If Yes, how? ____
____
____

If No, why? ____
____
____

I really appreciate you taking your time for this survey and if you can spare another half an hour on this topic then I have the following few issues that I would really like to explore bit more:

-What do you think are the key barriers for companies to go public and to list on the SPSE?

-What further incentives provided by the SPSE , CMDA or Government would lead to an increase in IPOs and an increase in the listings?

-What further initiatives do you think the CMDA and the SPSE should consider introducing to promote the further development of the stock market in Fiji?

-Do you have any further suggestion for the CMDA or for the SPSE which could improve their services and products?

- Do you intend to continue to be listed on the SPSE for some time and why

Can you please make yourself available to discuss these issues, please tick either YES ☐

Or NO ☐

I will try to contact you within a week after receiving the feedback if that's convenient with you

Thank you

If you would like a copy of the results or if you would like to discuss the survey please e mail me at mala_r@usp.ac.fj or call me on 3232181.

QUESTIONNAIRE #2

(SURVEY OF COMPANIES, WHICH ARE LIKELY TO LIST IN THE NEAR FUTURE)

This questionnaire and some interviews form part of my research for the MA thesis project on the topic of stock market development. Please note that the identity of the respondents would be kept confidential

1. How important would be the following motivations for conducting an IPO (Initial Public Offering)?

   1 = not relevant: did not influence the decision at all

   2= relevant, but not of sufficient importance to affect the decision one way or the other

   3= important: influenced the decision, but not of sufficient importance to motivate us to make the IPO by itself

   4=very important: of such importance that we are motivated to make the IPO on this time

   (please circle the number)

To minimize our cost of capital	1	2	3	4
Debt is becoming too expensive	1	2	3	4
Our company has run out of private equity	1	2	3	4
To create public shares for use in future acquisitions	1	2	3	4
To allow one or more principals to diversify Personal holdings	1	2	3	4
To enhance the reputation of the company	1	2	3	4
To establish the reputation of the company	1	2	3	4
To broaden the base of ownership	1	2	3	4
To improve the financial and managerial discipline of the company	1	2	3	4
To establish a market price/value for our company	1	2	3	4
To increase public awareness about the company And its products	1	2	3	4

Others (please specify) --

2. a. What was the your current source of start –up capital ?

   ----

   b. If you need some more financing for your company what source of financing would you prefer?

   ----

3. To what extent would the following influence the timing of your possible IPO?

1 = not relevant: did not influence the decision at all

2= relevant, but not of sufficient importance to affect the decision one way or the other

3= important: influenced the decision, but not of sufficient importance to motivate us to make the IPO this time

4=very important: of such importance that we are motivated to make the IPO on this basis alone *(please circle the number)*

Overall stock market conditions	1	2	3	4
Industry conditions	1	2	3	4
Other good companies were currently going public	1	2	3	4

Others (please specify) ---

4. What concerns (or reservations) do you have in going public?

1 = not relevant: did not influence the decision at all

2= relevant, but not of sufficient importance to affect the decision one way or the other

3= important: influenced the decision, but not of sufficient concern

4=very important: is a major concern to influence the decision

(please circle the number)

Meeting the disclosure requirements for a Prospectus	1	2	3	4
Meeting the disclosure rules of the stock Exchange	1	2	3	4
The cost associated with the going public and listing process in terms of fees and management's time	1	2	3	4
Dealing with the company's reorganization	1	2	3	4
Fear of loss of control	1	2	3	4
Fear of disclosing the financial performance to Competitors	1	2	3	4
Dealing with the company's capital reconstruction Issues	1	2	3	4
Dealing with the tax issues	1	2	3	4
Fear of public criticism and scrutiny	1	2	3	4
Lack of confidence in the stock market	1	2	3	4
Lack of corporate advisors	1	2	3	4
Obtaining the major shareholder support	1	2	3	4

Others (please specify) ---
(circle the number)

5. A. What is your opinion regarding the costs associated in meeting the regulatory requirements of CMDA and SPSE, which must be satisfied before going public and listing.
(please place a tick)

5. No costs associated with compliance
6. Minimal costs of compliance, we did not have to weigh the costs against the benefits in making the listing decision
7. Material costs of compliance, we had to weigh the costs against the benefits

8. Costs are onerous, the costs of listing clearly outweigh the benefits

b. How did you see the following costs associated with listing?

1 = not relevant: did not influence the decision at all

2= relevant, but not of sufficient importance to affect the decision one way or the other

3= important: influenced the decision, but not of sufficient concern

4=very important: is seen as the major cost

(please circle the number)

Placing the financial reports in the public domain	1	2	3	4
Meeting the increased disclosure required under SPSE listing rules	1	2	3	4
Loss of business confidentiality	1	2	3	4
Bad market/industry conditions having the effects on the company's prestige	1	2	3	4

b. Do you have any personal opinion regarding the requirements?
If Yes what is it?

___

___

I really appreciate you taking your time for this survey and if you can spare another half an hour on this topic then I have the following few issues that I would really like to explore bit more:

-What do you think are the key barriers for companies to go public and to list on the SPSE?

-What further incentives provided by the SPSE , CMDA or Government would lead to an increase in IPOs and an increase in the listings?

-What further initiatives do you think the CMDA and the SPSE should consider introducing to promote the further development of the stock market in Fiji?

-Do you have any further suggestion for the CMDA or for the SPSE which could improve their services and products?

Can you please make yourself available to discuss these issues, please tick either YES ☐

Or No ☐

I will try to contact you within a week after receiving the feedback if that's convenient with you

Thank you

If you would like a copy of the results or if you would like to discuss the survey please e mail me at mala_r@usp.ac.fj or call me on 3232181.

October, 2005

QUESTIONNAIRE #3

SURVEY OF COMPANIES WHICH DECIDED TO LIST BUT WITHDREW

This questionnaire and some interviews form part of my research for the MA thesis project on the topic of stock market development. Please note that the identity of the respondents would be kept confidential

1. At the first place how important were the following motivations for thinking about conducting an IPO (Initial Public Offering?

1 = not relevant: did not influence the decision at all

2= relevant, but not of sufficient importance to affect the decision one way or the other

3= important: influenced the decision, but not of sufficient importance to motivate us to make the IPO by itself

4=very important: of such importance that we were motivated to make the IPO on this basis alone

(please circle the number)

To minimize our cost of capital	1	2	3	4
Debt is becoming too expensive	1	2	3	4
Our company has run out of private equity	1	2	3	4
To create public shares for use in future acquisitions	1	2	3	4
To allow one or more principals to diversify personal holdings	1	2	3	4
To enhance the reputation of the company	1	2	3	4
To establish the reputation of the company	1	2	3	4
To broaden the base of ownership	1	2	3	4
To improve the financial and managerial discipline of the company	1	2	3	4
To establish a market price/value for our company	1	2	3	4
To attract analysts' attention	1	2	3	4
To increase public awareness about the company and its products	1	2	3	4

Others (please specify) --

2. a. What was the your current source of start –up capital ?

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c. If you need more financing for your company what source of financing would you prefer?

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3. To what extent did the following influence the timing of your possible IPO?

1 = not relevant: did not influence the decision at all

2= relevant, but not of sufficient importance to affect the decision one way or the other

3= important: influenced the decision, but not of sufficient importance to motivate us to make the IPO this time

4=very important: of such importance that we were motivated to make the IPO at this time alone

(please circle the number)

Overall stock market conditions	1	2	3	4
Industry conditions	1	2	3	4
Other good companies were currently going public	1	2	3	4
We needed the capital to continue to grow	1	2	3	4

Others (please specify) ---

4. What concerns (or reservations) did you have in going public?

1 = not relevant: did not influence the decision at all

2= relevant, but not of sufficient importance to affect the decision one way or the other

3= important: influenced the decision, but not of sufficient concern

4=very important: is a major concern to influence the decision

(please circle the number)

Meeting the disclosure requirements for a Prospectus	1	2	3	4
Meeting the disclosure rules of the stock Exchange	1	2	3	4
The cost associated with the going public and Listing process in terms of fees and management time	1	2	3	4
Dealing with the company's reorganization	1	2	3	4
Fear of loss of control	1	2	3	4
Fear of disclosing the financial performance to Competitors	1	2	3	4
Dealing with the company's capital reconstruction Issues	1	2	3	4
Dealing with the tax issues	1	2	3	4
Fear of public criticism and scrutiny	1	2	3	4
Lack of confidence in the stock market	1	2	3	4
Lack of corporate advisors	1	2	3	4
Obtaining the major shareholder support	1	2	3	4

Others (please specify) ---
(circle the number)

5. How important were the following in your decision to withdraw or not to conduct the IPO?

1 = not relevant: did not influence the decision at all

2= relevant, but not of sufficient importance to affect the decision one way or the other

3= important: influenced the decision, but not of sufficient

4=very important: is a major reason to withdraw from the IPO

(please circle the number)

Decision to maintain control	1	2	3	4
To avoid ownership dilution	1	2	3	4
Disclosing information to competitors	1	2	3	4
Already have enough capital	1	2	3	4
Costs/fee of an IPO	1	2	3	4
To avoid earnings per share dilution	1	2	3	4
Bad market/industry conditions	1	2	3	4

Others (please specify) --

6. A. What is your opinion regarding the costs associated in meeting the regulatory requirements of CMDA and SPSE, which must be satisfied before going public and listing.
(please place a tick)

No costs associated with compliance
Minimal costs of compliance, we did not have to weigh the costs against the benefits in making the listing decision
Material costs of compliance, we had to weigh the costs against the benefits
Costs were onerous, the costs of listing clearly outweigh the benefits

b. How do you see the following costs associated with listing?

1 = not relevant: did not influence the decision at all

2= relevant, but not of sufficient importance to affect the decision one way or the other

3= important: influenced the decision, but not of sufficient concern

4=very important: is the main cost associated with listing

(please circle the number)

Placing the financial reports in the public domain	1	2	3	4
Meeting the increased disclosure required under SPSE listing rules	1	2	3	4
Loss of business confidentiality	1	2	3	4
Bad market/industry conditions having the effects on the company's prestige	1	2	3	4

Others (please specify) --

b. Do you have any personal opinion regarding the requirements?
If Yes what is it?

____

____

7. What is your view regarding the efficiency of the CMDA in handling your proposal and prospectus information for review.
(place a tick)

Very efficient

Efficient
Not very efficient
Not efficient

8. Which of the following reasons are pertinent to your decision not to raise finance by a share issue?
There is no need to raise funds
It is easier to raise the funds through bank loans
There are no material benefits to be secured through listing
(Please place a tick)

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Can you please make yourself available to discuss these issues, please tick either YES ☐

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Appendix Two

Table 1

Performance indicators for emerging stock markets (ESMs) and developed stock markets (DSMs), 1980 – 1992

Variable	DSM	ESM
Ratio of Value traded to Market Capitalization (1)	.0346	.3022
Ratio of Market Capitalization to GDP(2)	.3729	.1546
Real Market Capitalization per company (3)	5.1568	2.7295
PE ratio (4)	17.7233	14.6504
Real dividend yield (5)	.0372	.0406
Real Market capitalization (6)	.2107	.2970
1=measure of market efficiency 2 ,3 = measure the size of the market 4,5,6 = indicator of price mechanism Note : Significance level of univariate F-test for differences in mean v ** 5% level; * 10% level.		

Source :Kumar and Tsetsekos (1999)

Table 2

Criterion 1 (Measurement of GDP/Capita in the Fiji Islands)

Year	1999	2002	2003
GDP/Capita (US $)	2 300	2 080	2 360

(Worldbank 2005)

Criterion 2 (Market Capitalisation over GDP ratio)

Year	2004	2003	2002	2001
Level Of GDP ($000) (constant price)	2 987 235	2 928 947	2 794 964	2 109 300
Stock Market Capitalisation	794 428 760	748 357 676	769 000	275 000

(Source; Bureau of Statistics, Fiji Islands)

Ratio

(Market Capitalisation/GDP)

Year	**Ratio**
2001	0.00013
2002	0.00028
2003	0.26
2004	0.27