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Cross Border Listing Announcements and Stock Returns of Firms Listed At Nairobi Securities Exchange, Kenya

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Abstract
Financial markets globalization has led to a high number of companies cross listing their shares on security exchanges beyond their local market boundaries. Academic dissertations continue examining the effects that cross listing has on various managerial aspects of a company including investment returns, value of the firm and also performance. In East Africa region, the companies cross list in four organized security exchanges namely Rwanda Securities Exchange, Dar es Salam Securities Exchange, Uganda Securities Exchange and NSE. This research tried finding the relationship between cross border listing announcements and stock returns for firms that have a listing at the Nairobi Securities Exchange. As part of specific objectives, this research sought to determine how cross border listing announcement in the DSE, RSE, and USE behaves in relation to the return in stocks at the NSE. Anchoring the study were two theories, namely Signalling Theory and the Efficient Market Hypothesis, to explain the relationship between cross border listing announcements and stock returns at all Nairobi Securities Exchange listed firms. The explanatory research methodology on seven cross listed firms with a forty-day event window was applied. Twenty days' pre-announcements and twenty days' post announcements. The secondary data for the research was obtained using data collection sheets. In analysing the secondary data, descriptive methods came in handy assisted by SPSS version twenty-four. The study also applied the two tailed test analysis in determining whether cross listing announcements influences stock returns of cross-listed firms trading at the Nairobi Stock Exchange. The results indicate that that p values for KQ, EABL, Jubilee, Nation Media, Uchumi and KCB cumulative abnormal returns on DSE are insignificant at 95% confidence interval. The findings also indicate that that p values for KQ, EABL, Jubilee, Equity, Nation Media, Uchumi and KCB cumulative abnormal returns on USE are all more than 0.05 (P > 0.05) hence, insignificant. Finally, the results indicate that p values for KQ, EABL, Jubilee, Equity, Nation Media, Uchumi and KCB cumulative abnormal returns on RSE are insignificant at 95% confidence level. The study concludes that announcements on cross listing bear an insignificant impact on stock returns performance of firms that have been cross listed.
However, there are anomalies observed in the markets and this renders the bourses inefficient since it is possible that investors could earn abnormal returns just be analysing patterns and setting approaches accordingly. In coming to a conclusion, the research advises that the regulators of the East African bourses that is RSE, USE and DSE should aim to strengthen their market efficiency even further to discourage information leakage and unfair abnormal returns. In addition, those firms aiming to cross list on different bourses should not entirely use such announcements as a signal for new investors given that not much difference in stock returns is expected.

Keywords: *Abnormal Returns, Cross-Border Listing, Expected Return, Stock Market Performance*

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I. Introduction

Internationalization of financial market has raised the number of companies choosing to cross list their shares on security exchanges beyond their local market.Cetorelli and Peristiani (2015) argue that among the benefits of cross-listing is an increase in equity finance at a cheaper cost, an improvement in the reputation of the business because of its accountability, reduced marker segmentation as well as improved corporate governance. Due to cross listing therefore, a company is able to improve its confidence and hence record improved stock returns. Mburugu, Nyamute, Iraya and Mwangi (2017) argued that an important reason why companies cross list is the desire by management to gain prestige for the company. Also, cross-border listing results in high liquidity of a firm.

II. Statement of the problem

The general study objective seeks to bring to light how cross border listing announcements relate with the stock returns of firms with a listing at the NSE, Kenya.The guiding framework in the study took place through a set of specific objectives as follows:

i. To determine how cross border listing announcements effects Dare Salaam Stock Exchange on the returns in stock for firms with a listing at the Nairobi Securities Exchange, Kenya
ii. To find out how cross border listing announcements on Ugandan Stock Exchange on stock returns of firms with a listing at the NSE, Kenya
iii. To explore how cross border listing announcements affect the Rwanda Stock Exchange on stock returns for the firms with a listing at the Nairobi Securities Exchange.

III. Literature Review

The study was built on the Signaling Theory, the Efficient Market Hypothesis (EMH), Modern Portfolio Theory(MPT) and Capital Asset Pricing Model (CAPM).Cross-border listing entails securities listing in local exchange by a foreign based corporation. The issuing of shares should take place where utmost price can be attained, less issuing costs. Should the costs of issuing become the same, the corporation is thereby expected to do listing in the stock exchange market that offers the minimum returns are similar, the corporation should undertake listing in a nation where projected return in equity is minimum. Should the markets happen to be completely integrated, the anticipated equity capital cost will be similar in all countries. This means that capital market segmentation renders the expected returns on similar assets different in different markets. Following the move to segment markets, firms find it highly beneficial to issue shares simultaneously in differentiated equity markets away. Most upcoming East African Community (EAC) markets are increasingly concentrated and as a result they seem underdeveloped, small, and illiquid and exhibit pricing volatility and inefficiency. This means that when an organization cannot generate additional capital even from the external sources, and has drained existing resources, the smaller does its growth potential become.

In his examination of how stock performance announcements affect cross-border listing, Oluoch (2012) used a seven NSE-listed companies sample and cross-listed between 2001 and 2011. The research found that cross border listing announcements positively impacted the stock performance. The finding was evidenced by cumulative average abnormal returns that seemed to be 60% positive. The research recommended that announcements data be applied as the occurrence.

Kiprop (2013) examined how cross-border listing impacts the value of companies with a cross listing in the East African Securities exchanges. He applied event study methodology and took an event window of 41 days. The research observed that abnormal return curve went up with time, which offered evidence that firms benefited from cross border listing. A major limitation cited in the research was that there was no standard estimation and event period in event research and therefore distinct researchers could choose different estimation lengths and event periods rendering their inferences different based on period length. Therefore, the research made a position that an extra study should be undertake with a view of determining the relationship between East Africa Securities Exchanges. Establishing the relationship will effectively guide decisions making among investors by highlighting areas in the market that require diversification in investments with a view of lowering the risks.

The independent variable for the study is cross-border listing announcement while stock returns serving as the dependent variable.

IV. Research Methodology

The research design adopted in the study is the explanatory design whereby a causal relationship between the variables is established, as argued by Litosseliti (2018). In carrying out this study, the researcher used a number of units which form the target population (Clandinin, Cave &Berendonk, 2017). The firms targeted were seven cross-listed companies at the NSE from Kenya: Nation Media Group (NMG), Uchumi, Kenya Commercial Bank (KCB) bank, Equity Holdings, and Kenya Airways Jubilee Insurance and East African Breweries as of 2019.The study collected secondary data of individual firms on share prices and the NSE 20 index from NSE 20 days before and after cross listing announcements. Data on NSE 20 index was used in calculating the expected return as well as the model of the market in calculating estimating abnormal returns since the model reflects changes in the whole market.

The study used an event study where the abnormal stock returns in the event period will be adopted. To compute abnormal stock performance, the market model was used. The assumption is that any other information affecting the stock performance has been incorporated in the pricing of the security. The researcher applied the event market model under various steps.

Step 1: Normal and Abnormal Return
Abnormal return was used to appraise the event's impact. This is the measure of how much actual return differs from the expected return. Normal return is that which is realized in the absence of the event.
$AR_{i,t} = R_{i,t} - E(R_{i,t})$ ……4.1
Where AR is abnormal returns
R is the actual return given by (ending value- beginning value)/beginning value
t is time period
ER is expected return $E\{R\}=\sum R_iP_i$
Where R_i= return in scenario i
P_i= probability for the return R_i in scenario i
Step 2: Cumulative Abnormal Returns
This is the aggregate in the event period. CAR will be used to determine the aggregate over the event window.
CAR i $(-T_2T_3) = \sum_{t=T2}^{nT3} AR\,i,t$ …… 4.2
Where CAR is Cumulative Abnormal Return
T_2 is end of estimation window
T_3 is end of event window
Step 3: Testing the Significance of CAR
An independent sample t-tests were done on cumulative abnormal returns before and after the cross-listing announcement on different bourse to establish the significance of cumulative abnormal returns. Therefore, SPS statistical program was used to conduct the t-tests in this research. The relationship underwent a test to find out the significance by use of the t-test as a 95% confidence level.

V. Data Analysis, Results and Discussions

The chapter presents what the study found out through the use of charts, tables and figures that give a visual impression of the findings. Interpretation of the results has also been done while comparing the results to other studies.The study analyzes the performance of the company stock returns some twenty days before the cross-listing announcement and what happens twenty days thereafter. Secondary data on share prices along with NSE 20 index acquired from the NSE was tabulated and undergone compilation in an excel sheet before being transferred to the SPSS where a more in-depth analysis of the t-tests was carried out.

VI. Conclusion

Based on the findings, the study concludes that cross border listing announcements by KQ, EABL, Jubilee, Nation Media, Uchumi and KCB on DSE, USE and RSE had no significant effect on stock returns of the firms. However, there are anomalies observed in the markets and this renders the markets inefficient. This is because there is need for bourses to make stern improvements in the legal and regulatory setting of capital markets which in turn will benefit the financial system development as a whole. That being the case, the anomalies existence tends to negate the idea of market inefficiency since it is possible that investors could earn abnormal returns just be analysing patterns and setting approaches accordingly. The existence of seasonality in East African stock indices should attract a wide array of market players, such as portfolio managers and individual investors, in their expedition for the appropriate time to buy and sell stocks.

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