

Factors affecting demutualization strategy of the Nairobi Securities Exchange

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Abstract:

Demutualization is about changing the ownership structure of the stock exchange; from a mutual association with one vote per member and possibly consensus-based decision making, into a company limited by shares, with one vote per share (with majority-based decision making). The demutualization trend has been attributed to a number of reasons that include: improved governance, investor participation, competition, globalization and consolidation and unlocking stock exchange value. Demutualization would restructure governance at the stock exchanges on a sustainable basis as the ownership rights will be delinked from trading rights and increase the role of non-member stakeholders in the affairs of the exchange. The objective of this study was to determine the factors affecting demutualization strategy of the Nairobi Securities Exchange. The study adopted a descriptive research design. The target population comprised of all 58 stakeholders at the NSE. This included: Capital Markets Authority (CMA), Central Depository Systems (CDS), Stock Brokerage firms, and mutual companies. Primary data was collected by use of a semi structured questionnaires with both open and closed ended questions. Data analysis was done using SPSS and Microsoft Excel to generate quantitative reports which were presented in the form of tabulations, percentages, mean and standard deviation. Multiple regression analysis between different variables related to demutualization of the NSE was also conducted. The study recommends that the current owners who include the stockbrokerage firms should commit to relinquish significant ownership to the government and to the general public so that the stock exchange can be listed to trade like any other company. To ensure successful demutualization, the Government should work in collaboration with all stakeholders to ensure there is no resistance to the whole process of demutualization. The study recommends during the whole transition period on demutualization, the stock exchange should maintain high level of corporate governance to ensure that the interests of both the current mutual owners and investors are not affected. This is because high levels of corporate governance ensure that market confidence is held high.