



MAKERERE UNIVERSITY BUSINESS SCHOOL

**INFORMATION ASYMMETRY, PERCEIVED PARTICIPATION COSTS AND
PERCEIVED STOCK MARKET PARTICIPATION OF PRIVATE FIRMS IN
KAMPALA**

BY

ZAINABU TUMWEBAZE

2011/HD10/3742U

tumwebaze08@yahoo.com

+256 702 202 021

**A FINAL DISSERTATION SUBMITTED TO SCHOOL OF GRADUATE STUDIES IN
PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE DEGREE
OF MASTER OF SCIENCE IN ACCOUNTING AND FINANCE
OF MAKERERE UNIVERSITY**

PLAN A

September, 2014

Declaration

I, Zainabu Tumwebaze, declare to the best of my knowledge that, this dissertation is my original work, which has never been submitted for any award in any other University.

Signed..... Date.....

Zainabu Tumwebaze

2011/HD10/3742U

Approval

This is to certify that this dissertation has been submitted for examination with our approval as University supervisors.

Signed:

Date:

Dr. Laura Orobia

Makerere University Business School

Signed:

Date.....

Dr. Nixon Kamukama

Makerere University Business School

Dedication

To my beloved daughter, Amirah.

Acknowledgement

God Almighty, All things are possible with you and surely this has been made possible with your unending love and presence in my life. I am forever beholden to you. Makerere University Business School Management for the financial support to pursue this programme. My supervisors, Dr. Laura, and Dr. Kamukama for the priceless guidance accorded to me throughout this process. May the Almighty God bless you abundantly.

My family, husband, Aunt, Siblings, I could not choose any better family if given a choice. For the continued encouragement, prayers and giving me chance to study my postgraduate as you gave a piece of mind. Scovia, Selina for always being there for my child when I was out there struggling with this research work, and always there at home to welcome me when I reached at midnight. God bless you.

In a special way I thank my friends especially Dr. Laura, Tirisa, Ashim, thanks for the continuous encouragement during that hard moments for me. It made a difference.

My respondents, even if you have busy schedules, you gave me part of your valuable time without which I would not have accomplished this report. God richly bless you.

Table of Contents

Declaration	ii
Approval	iii
Dedication	iv
Acknowledgement	v
Table of Contents	vi
List of Tables	viii
List of Figures	ix
List of Acronyms	x
Abstract	xi
CHAPTER ONE: INTRODUCTION	1
1.1 Introduction.....	1
1.2 Background to the study	1
1.3 Statement of the Problem.....	3
1.4 Purpose of the Study	4
1.5 Objectives of the Study.....	4
1.6 Research Questions.....	4
1.7 Scope of the study.....	5
1.8 Significance of the Study	5
1.9 Conceptual Framework.....	6
CHAPTER TWO: LITERATURE REVIEW.....	7
2.1 Introduction.....	7
2.2 Definition of Study variables	7

2.3 Relationship between the study variables	14
CHAPTER THREE: RESEARCH METHODOLOGY	18
3.0 Introduction.....	18
3.1 Research Design.....	18
3.2 Population of the Study.....	18
3.3 Sample size and Sampling method	19
3.4 Data sources and Data Collection Instruments	20
3.5 Measurement of variables	20
3.6 Reliability.....	21
3.7 Data processing and analysis	22
CHAPTER FOUR: PRESENTATION AND INTERPRETATION OF FINDINGS.....	23
4.0 Introduction.....	23
4.1 Sample characteristics.....	23
4.2 Relationship between the variables.....	26
4.3 Regression analysis.....	28
CHAPTER FIVE: DISCUSSION, CONCLUSION AND RECOMMENDATIONS	30
5.0 Introduction.....	30
5.1 Discussion of the findings.....	30
5.2 Conclusion	33
5.3 Recommendations.....	34
5.4 Areas for further Research	34
REFERENCES	35
Appendices.....	40

List of Tables

Table 1: Sample distribution	19
Table 2: Reliability Test.....	21
Table 3: Demographic characteristics of the respondents	24
Table 4: Background characteristics of the private firms	25
Table 5: Correlation analysis	26
Table 6: Multiple Linear regression results	28

List of Figures

Figure 1: Conceptual Framework.....	6
-------------------------------------	---

List of Acronyms

CMA:	Capital Markets Authority
IPO:	Initial Public Offering
NSE:	Nairobi Stock Exchange
POH:	Pecking Order Hypothesis
SMP:	Stock Market Participation
URA:	Uganda Revenue Authority
USE:	Uganda Securities Exchange

Abstract

The study examined the relationships between information asymmetry, perceived participation costs and perceived stock market participation of private firms in Kampala. It was prompted by the limited numbers of firms listed on the Uganda Securities Exchange (USE) compared to the number of firms listed on the Nairobi Stock Exchange (NSE).

The study adopted a quantitative (descriptive and inferential) research designs. The study considered large tax payers with annual chargeable income above Shs. 50m within Kampala District who constituted the population of study. The sample size of the study was 118 respondents and self-administered questionnaires were used to collect data from the private firm's managers.

The study found out that, information asymmetry and perceived participation cost are related with perceived stock market participation. Information symmetry was found to have a positive and significant relationship with Perceived stock market participation as well as perceived participation cost did with perceived stock market participation. However information asymmetry is a more important predictor of perceived stock market participation than perceived participation costs. There was also significant positive relationship between Information asymmetry and Perceived participation costs. These findings imply that if there is positive improvement in the quality and quantity of information provided more firms will be seen participating on the stock market.

From the findings, it is recommended that much emphasis should be put on provision of quality information (accurate and clear) by private firms as well as USE the making information about is operation mare available. Furthermore, CMA should review the costs involved in accessing finance through the stock exchange. If USE and CMA adopt this stand, the financing option is likely to be familiar and affordable to these firms and thus more firms will be seen to use the stock market as the source of finance.