

An Investigation of Hindrance Factors Preventing Companies from Listing on the LuSE

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ABSTRACT

Purpose: This study seeks to examine the underlying factors that hinder companies in Zambia from listing on the Lusaka Securities Exchange (LuSE), despite the advantages of going public. While stock market participation can significantly enhance access to capital, lead to improved corporate governance, and support long-term growth, listing activity on LuSE remains limited. This research aims to identify the core challenges and inform strategies to address them.

Design/Methodology/Approach: A quantitative approach was employed, combining primary data collected through structured surveys administered to a diverse group of companies and capital market stakeholders, with secondary data from relevant institutional sources. Descriptive statistical analysis and thematic categorization were used to systematically identify and interpret the principal barriers to listing.

Findings: The results highlight a confluence of economic, regulatory, organisational, and perceptual constraints that discourage firms from pursuing public listing. Key deterrents include the high financial and administrative costs of listing, burdensome regulatory compliance requirements, limited understanding of the listing process, concerns over potential loss of ownership and control, and an underdeveloped market ecosystem lacking sufficient investor participation and liquidity.

Practical Implications – The findings offer valuable insights for policymakers, the Securities and Exchange Commission (SEC), LuSE authorities, and business leaders. By addressing these barriers, stakeholders can improve the attractiveness of public listing, stimulate broader market participation, and contribute to Zambia's financial sector development.

Originality/Value – This study fills a critical gap in the literature by providing empirical evidence on listing deterrents in Zambia, offering actionable recommendations for capital market reform in emerging economies.

Keywords: *Lusaka Securities Exchange (LuSE), Zambia, capital markets, listing barriers, stock market participation, financial inclusion, corporate finance.*

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1. Introduction

Stock exchanges are essential pillars of modern financial systems, serving as mechanisms for capital formation, investment diversification, and economic development. They provide a structured marketplace through which firms can raise long-term capital for expansion while enabling investors to acquire equity and debt instruments, thereby participating in wealth creation and national economic growth. In Zambia, the Lusaka Securities Exchange (LuSE), established in 1994, was founded with the objective of enhancing

capital market development and supporting private sector growth. However, over the past three decades, the exchange has witnessed limited engagement from domestic firms. As of 2024, only twenty-nine (29) companies are listed on LuSE, a majority of which are state-owned enterprises or subsidiaries of multinational corporations. This persistent underutilization of the exchange by Zambian-owned firms raises a fundamental question: *What factors are deterring domestic companies from listing on LuSE?*

This study investigates the multifaceted barriers that prevent private firms from listing on the LuSE, with the aim of bridging knowledge gaps between academic inquiry and market practice. It provides a comprehensive evaluation of both perceived and actual challenges faced by firms, drawing from theoretical frameworks in capital market development as well as empirical evidence from the Zambian context. The study aims to inform policy formulation, regulatory reform, and business strategy by offering actionable insights into how capital market participation can be enhanced.

Despite the numerous advantages associated with public listing, including improved access to financing, heightened corporate transparency, and increased investor confidence, many firms in Zambia remain reluctant to engage with the formal securities market. This hesitation has implications not only for the growth path of individual firms but also for the broader financial ecosystem, which relies on a vibrant and diverse exchange to efficiently mobilize and allocate capital. LuSE, in its role as a primary market for issuing shares and bonds, holds significant potential to support enterprise growth and macroeconomic stability. However, its effectiveness remains constrained by low listing volumes and limited domestic participation.

The study pays particular attention to regulatory, institutional, and firm-level dynamics that may inhibit listings. These include listing requirements, corporate governance expectations, disclosure obligations, market perceptions, and costs associated with going public. Additionally, it explores the broader interplay between the performance of capital markets and economic development in Zambia especially the extent to which LuSE contributes to liquidity creation, risk-sharing, and investment mobilization.

From a macroeconomic perspective, the exchange's total market capitalization as of December 2023 stood at K74.95 billion (approximately US\$4.1 billion), representing just 5.7% of Zambia's GDP of US\$70 billion (Lusaka Securities and Exchange, 2024). This proportion reflects an underdeveloped capital market relative to the size of the national economy and underscores the need for targeted interventions to enhance market depth and inclusiveness.

By examining the systemic and strategic barriers that hinder broader participation in the LuSE, this study offers both a diagnostic framework and a policy roadmap. The findings are intended to be relevant not only to academics and researchers, but also to policymakers, regulators, financial advisors, and business leaders seeking to unlock the latent potential of Zambia's capital markets. Ultimately, fostering a more inclusive and dynamic securities exchange could play a critical role in advancing national development

objectives through improved capital access, enterprise growth, and economic resilience.

2. Literature Review

The evolution and efficiency of stock markets are widely recognized as fundamental determinants of macroeconomic performance, particularly in emerging and frontier economies. Empirical literature underscores the positive correlation between stock market development and key indicators of economic growth, including capital formation, investment rates, and productivity gains (Levine, 1998); (Beck, 2004). Stock exchanges facilitate the mobilisation and allocation of financial resources by linking surplus units with investment opportunities, thereby promoting liquidity, risk diversification, and improved corporate governance. In addition, they serve as barometers of economic confidence and mechanisms for price discovery, which are essential for informed capital deployment and long-term planning. Consequently, the depth, breadth, and efficiency of capital markets are frequently used as proxies for financial sector robustness and as predictors of sustained economic development.

Many analysts and investors often fall into the trap of forecasting stock market trends solely based on historical and current economic data. However, this approach is fundamentally flawed, as it overlooks a critical distinction in temporal orientation between financial markets and macroeconomic indicators. As noted by Jenks (2012), the stock market tends to be forward-looking, serving as a predictive mechanism that anticipates future economic conditions rather than merely reflecting present or past realities. In contrast, most economic indicators such as GDP, inflation rates, and employment statistics are inherently lagging or coincident in nature, capturing outcomes that have already materialised.

The anticipatory behaviour of stock markets is grounded in investor expectations, which incorporate forecasts about earnings, interest rates, fiscal and monetary policy, and geopolitical developments. As such, equity markets often respond to anticipated changes in economic fundamentals before these are observable in macroeconomic data. Consequently, rather than using economic data to predict market movements, it is more analytically sound to interpret market trends as potential signals of forthcoming economic shifts. This dynamic underscore the market's role as a barometer of future economic activity, thereby highlighting the importance of sentiment, expectations, and informational efficiency in financial analysis (Jenks, 2012).

Pioneering studies by Goldsmith (1969), McKinnon (1973), and Shaw (1973) were among the first to empirically establish a positive correlation between

financial development and economic growth. These foundational works laid the groundwork for subsequent research by highlighting the role of financial systems in mobilising savings, allocating capital efficiently, and promoting investment. However, despite the correlation observed, the issue of causality remains unresolved. Specifically, it is still unclear whether financial development actively drives economic growth, whether economic growth fosters the development of financial systems, or whether a bidirectional relationship exists. More recent research, particularly in the context of emerging markets, continues to affirm a positive association between stock market development and economic performance. Yet, as Bekaert (1998) observes, the existence, direction, and strength of any causal relationship remain subjects of debate and empirical ambiguity, suggesting the need for further investigation using advanced econometric models and context-specific analyses

“From the corporate finance literature around, there is an unsurprising view, however, that some economists have argued that the existence of a stock market has no relevance to economic growth.” (Stiglitz, 1976). This view, however, misses the important roles that the stock market can play in the growth of the economy. Stock Markets can stimulate growth in several ways such as “Portfolio diversification where without an efficient stock market, investors cannot have anywhere to diversify their investments. The stock market plays a key role in mitigating the moral hazard problem where one party in the transaction is more knowledgeable than the other. The stock market facilitates economic growth through innovation and can facilitate liquidity in the economy when large transactions can be done to provide liquid cash.” (Bekaert, 1998).

Other prior research has identified a range of structural and institutional barriers that hinder firms in emerging economies from listing on stock exchanges. Pagano, Panetta, and Zingales (1998) argue that companies contemplating public listing conduct a cost-benefit analysis, weighing the advantages of improved access to capital against the substantial costs associated with increased disclosure requirements, heightened scrutiny, and regulatory compliance (Pagano, 1998). In the African context, Yartey and Adjasi (2007) highlight additional constraints including limited financial literacy among entrepreneurs, a narrow and often underdeveloped domestic investor base, and persistent regulatory inefficiencies. These challenges collectively reduce the incentives for private firms to pursue public listing, thereby limiting the depth and inclusiveness of capital markets across the continent (Yartey, 2007).

Empirical research on the determinants of stock market participation in Zambia remains limited. Chipeta and Muthinja (2018) highlight that financial awareness and infrastructure significantly influence financial behaviour in Sub-Saharan Africa, suggesting that similar dynamics may affect listing decisions in Zambia (Chipeta, 2018). Chewe (2021) emphasises that ownership structures and managerial conservatism contribute to listing aversion among firms. Building upon these insights, recent studies have identified several barriers specific to the Zambian context (Chewe, 2021). For instance, Kawimbe et al. (2022) identify information accessibility, regulatory requirements, corporate governance, and support platforms as critical factors influencing Small and Medium Enterprises (SMEs) decisions to list on the LuSE Alternative Investment Market (Alt-M) (Kawimbe, 2022). Lungu (2020) corroborates these findings, noting that stringent listing requirements and high transaction costs deter SMEs from accessing equity financing through the LuSE (Lungu, 2020). Additionally, macroeconomic instability, characterised by fluctuating exchange rates and inflation, further discourages both domestic and foreign firms from pursuing public listings (Chitalu, 2021). This study seeks to build upon and localise these insights within the LuSE environment, aiming to provide a comprehensive understanding of the multifaceted challenges impeding corporate listings in Zambia.

3. Study Methodology

3.1 Methodological approach and choice

This study adopted a quantitative research methodology to systematically investigate the factors preventing companies from listing on the LuSE. The primary data collection instrument was a structured survey questionnaire administered to a purposive sample of firms registered with the Patents and Companies Registration Agency (PACRA) that have not pursued public listing. The survey instrument consisted primarily of closed-ended questions, designed to quantify perceived barriers to listing including financial constraints, regulatory burdens, governance structures, market preparedness, and informational asymmetries (Creswell, 2014). This approach enabled the collection of standardized data, facilitating strong statistical analysis (Sikalumbi, 2023).

In addition to primary data, secondary data sources such as financial reports, industry statistics, and regulatory documents were consulted to complement and validate the survey findings. The collected data were analysed using both descriptive and inferential statistical techniques. Descriptive statistics provided insights into general trends and distributions across

key variables, while inferential methods, including multiple regression analysis, were employed to examine the relationship between firm-level characteristics (e.g., firm size, profitability, industry sector, and years in operation) and their propensity to consider listing on the LuSE (Pallant, 2020).

This quantitative framework was selected for its capacity to produce objective, generalisable findings and to identify statistically significant patterns that may inform policy and regulatory interventions. By triangulating survey results with secondary data and employing rigorous analytical tools, the study aimed to generate empirically grounded recommendations to enhance capital market participation among Zambian firms (Saunders, 2019).

The deductive research approach was deemed appropriate for this study as it facilitated a structured and theory-driven investigation into the factors preventing companies from listing on the LuSE. This approach begins with the formulation of hypotheses derived from existing literature and theoretical frameworks, followed by empirical testing through the collection and analysis of data (Saunders, Lewis, & Thornhill, 2019). In the context of this study, the deductive method enabled the researcher to start with well-defined assumptions regarding potential listing barriers such as regulatory complexity, financial limitations, and unfavourable market conditions and empirically examine the validity of these assumptions using quantitative techniques.

The strength of the deductive approach lies in its ability to test specific hypotheses, thereby yielding focused and interpretable findings. Kothari (2004) supports this view, emphasizing that deduction allows researchers to narrow the scope of inquiry to well-defined variables, which enhances the manageability of the study and the clarity of its outcomes (Kohari, 2004). By leveraging this method, the research maintained a high degree of analytical rigor while contributing empirical evidence to the broader discourse on capital market participation in emerging economies such as Zambia.

3.2 Sampling framework

A well-structured sampling framework was essential for ensuring the reliability and validity of the research investigating the hindrance factors preventing companies from listing on the LuSE.

The target population for this study comprised companies registered with the Patents and Companies Registration Agency (PACRA) that had not listed on the Lusaka Securities Exchange (LuSE). These firms represent a critical segment of Zambia's private sector, and examining their non-participation in capital markets offers important insights into the operational and structural limitations of the LuSE. The population was identified using PACRA's publicly accessible

company registration database, which contains detailed records on firm activity status, sector classification, and organizational size.

To ensure the relevance and accuracy of the study, several exclusion criteria were applied. Inactive companies, micro- and small-scale enterprises, state-owned enterprises (SOEs), and firms already listed on the LuSE were excluded from the analysis. Additionally, start-ups and newly established firms defined in this study as entities in operation for ten years or less as of December 2023 were also excluded, based on the rationale that their operational maturity may not yet align with listing readiness. The study further excluded foreign-owned entities, subsidiaries of multinational corporations, and firms whose registration data exhibited inconsistencies or missing identifiers, such as National Registration Card (NRC) numbers or Entity Numbers. This rigorous filtering process ensured a focused examination of mature, domestically owned firms with potential listing capacity, thereby enhancing the validity of the research findings.

The sample for this study was drawn from companies domiciled in Lusaka District that were registered between 1993 and 2013 and had maintained continuous business operations for over 20 years. This criterion was intended to ensure the inclusion of firms that had advanced beyond the start-up phase and demonstrated operational maturity, organizational stability, and strategic development. Such firms are more likely to have accumulated sufficient institutional experience and financial capacity to consider public listing as a viable financing option.

In addition to longevity, firms were selected based on qualitative indicators of market competitiveness. These characteristics were deemed essential for assessing readiness for public listing, as they reflect a firm's ability to meet the reputational, regulatory, and operational demands associated with participation in the capital markets.

3.3 Sample Size Determination

Determining an appropriate sample size was key to ensure the reliability, validity, and generalisability of the study's findings. As emphasized by Hair et al. (2014), sample size determination should consider several factors, including the research design, the nature of the target population, and the statistical techniques to be employed (Hair, 2014). In line with these guidelines, the minimum sample size for this study was established to achieve sufficient statistical power to detect meaningful relationships between hypothesised hindrance factors such as regulatory, financial, and structural barriers and a firm's decision not to list on the LuSE.

The selected sample size was designed to strike a balance between statistical strength and practical

feasibility. It was large enough to generate reliable and representative estimates while remaining manageable in terms of data collection, processing, and analysis. This methodological consideration helped to enhance the overall objectivity and credibility of the research outcomes

Given the total population of eligible companies, the determination of the sample is as shown below considering the precision level of 0.05.

$n = \frac{N}{1 + N(e)^2}$ Where: n = sample size, N = population size, e = level of precision

$$n = \frac{52,954}{1 + (52,954(0.05)^2)} = 397$$

As part of the eligible sample identified through the PACRA register, the study also included fifty-four (54) capital market and securities business intermediaries registered with the Securities and Exchange Commission (SEC), the statutory regulatory and licensing authority established under the Securities Act, Cap 354 of the Laws of Zambia. These intermediaries, comprising brokerage firms, investment advisers, and market dealers, were considered critical stakeholders in the capital market ecosystem. Their inclusion was justified on the basis that their perspectives and participation are instrumental in shaping the dynamics of market access, investor confidence, and overall functionality of the LuSE.

Drawing on established research and common benchmarks for business survey participation, an expected response rate of approximately 30% was projected for this study. To obtain a minimum of 100 valid responses deemed adequate for statistical analysis, the survey was disseminated to an initial sample of roughly 333 eligible companies. This projected response rate aligns with typical expectations for organisational surveys, which often report participation rates ranging between 20% and 40%, depending on the survey mode and the target population (Salant, 1994; Sikalumbi, 2025).

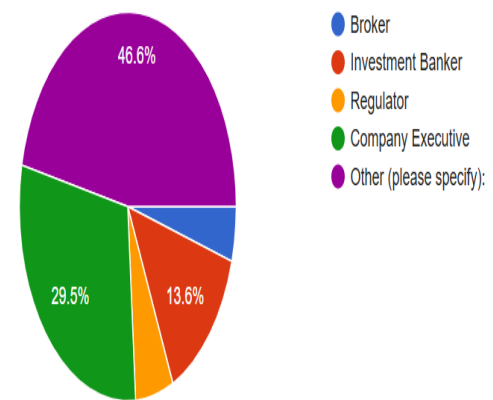
Anticipating non-responses and incomplete submissions, the survey distribution strategy intentionally oversampled to mitigate attrition and enhance the reliability of the final dataset. This approach ensured that the study would yield enough usable responses to conduct meaningful statistical analyses and draw valid inferences. A sample of 100 or more is generally considered adequate to detect moderate effect sizes and meet assumptions for multivariate techniques (Cohen, 1992); (Green, 1991), thereby supporting the study's analytical strength and generalisability.

4. Results and Discussion

Out of the targeted 119, representing 30% response rate from the sample of 397, the study achieved 88 valid responses. According to Salant & Dillman (1994), the study achieved 22% and therefore, met the threshold of standard business surveys which range from between 20% to 40%. To accomplish this, it was necessary to make use of an existing PACRA database of limited companies and capital market players registered by the Securities and Exchange Commission (SEC). E-mail surveys were distributed to selected organisations and those engaged in capital market promotion, investment banking, fund management and stock brokering. Chief Executives and the regulator were also engaged in the survey. Self-administration of surveys was conducted.

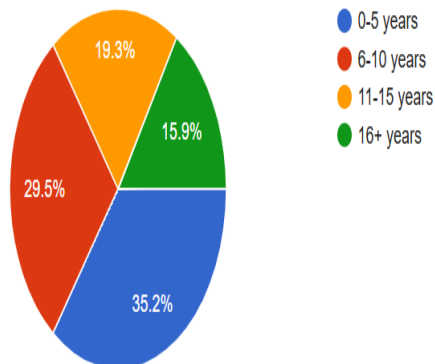
The results of the study's first effort were to assess the respondents' roles in the company and capital market. Figure 1 below shows the respondents primary role in the companies / organisations surveyed.

Figure 1: Respondents' Primary Role



According to the indicator role data (figure 1 above), 13.6% of respondents were investment bankers, 29.5% were company executives, 5.7% were representatives from the regulator, 46.6% were fund managers and other players in the capital market while 4.5% were brokers. As shown above, most respondents were company executives, fund managers and other players. The two (2) categories accounted for 76.1% of the responses while the least respondents were brokers at 4.5%.

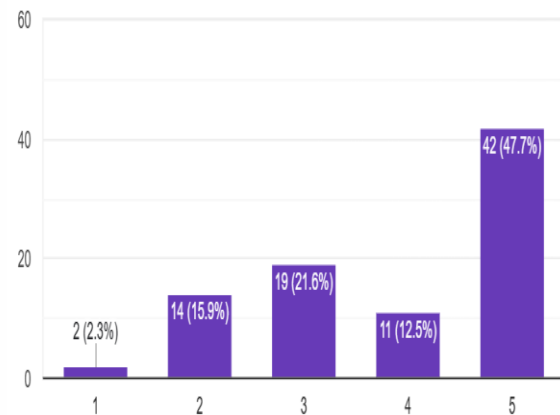
The survey also sought to establish the level of experience of the respondents, and the results are presented in figure 2 below.

Figure 2: Respondents' Years of Experience

The results of the study indicated that thirty-one (31) representing 35.2% of the respondents had between 0 – 5 years of experience in their current role, and twenty-six (26) representing 29.5% had between 6 - 10 years of experience. Seventeen (17), representing 19.3% of the respondents, had between 11 - 15 years of experience while fourteen (14) representing 15.9% of the respondents had 16 years and above of experience in their current roles.

4.1 Regulatory Requirements and Compliance Concerns

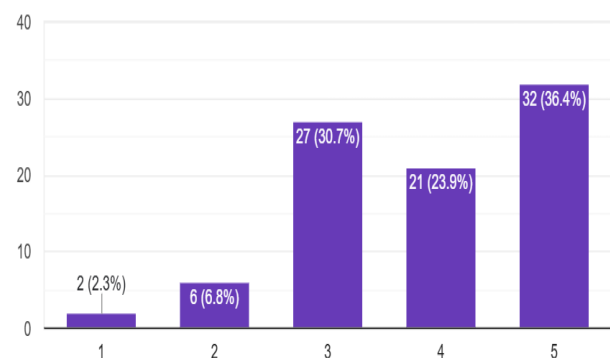
A predominant theme was the perceived complexity and rigidity of LuSE listing requirements. Forty-two (42) representing 47.7% of the respondents considered regulatory requirement as most important a consideration in the decision for LuSE listing, eleven (11) representing 15.5% considered regulatory requirement as somewhat important while nineteen (19) representing 21.6% were neutral. Fourteen (14) representing 15.9% of the respondents considered regulatory requirements somewhat less important while 2 representing 2.3% considered it as not important. These findings align with the observations of La Porta et al. (2000) on legal environments and firm behaviours. See figure 3 below.

Figure 3: Rating of Regulatory Requirements and Compliance Concerns in LuSE Listing Decision Making

4.2 Cost of Listing

Both survey and secondary data analysis indicated that listing fees, legal costs, and advisory expenses pose substantial barriers for small to medium enterprises (SMEs). A combined total of 60% of survey respondents rated the cost of listing as a 'major barrier.'

Thirty-two (32) respondents representing 36.4% and twenty-one (21) representing 23.9% felt the costing of listing a company on the LuSE was a important and somewhat important factor that influenced companies' listing decision. Twenty-seven (27) representing 30.7% were neutral while six (6) representing 6.8% considered the factor somewhat not important and two (2) representing 2.3% considered it not important. See figure 4 below.

Figure 4: Rating of Cost of Listing Importance consideration in the LuSE Listing Decision Making

4.3 Information Asymmetry and Awareness

Limited knowledge of the benefits and processes of listing was another recurring factor. Some firms believed that LuSE only caters to large, established entities. This misperception limits the pool of potential entrants. Respondents to the survey were asked to state what they believed was the single most significant barrier to companies listing of the LuSE. Eighty-one (81) representing 92% of the respondents provided responses as shown as shown in figure 5 below;

Figure 5: Lack of Awareness as a Hindrance Factor Identified by Respondents

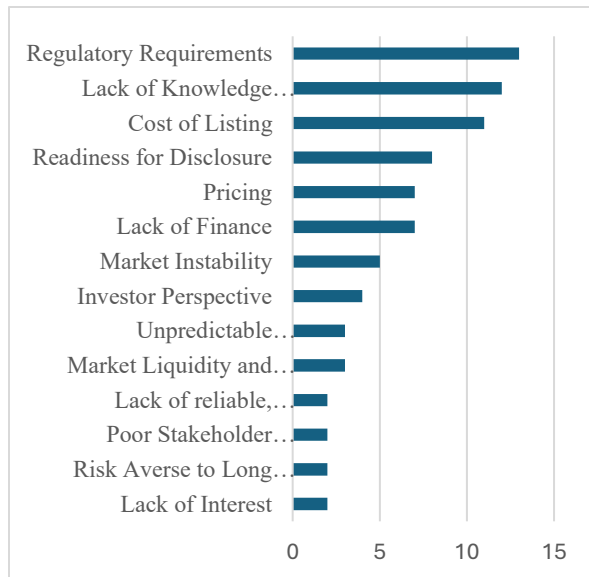
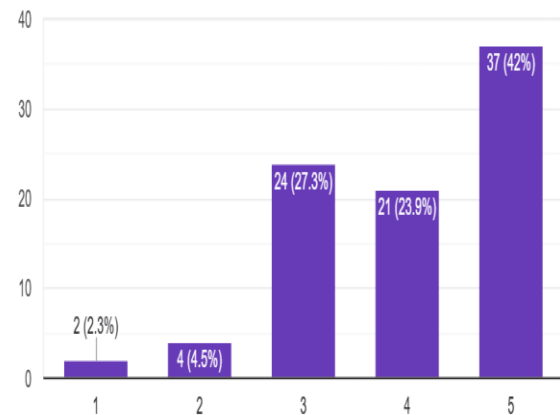


Figure 5 above shows that regulatory requirements, lack of knowledge and awareness of benefits of LuSE listing, cost of listing on LuSE and readiness for disclosure accounted for 55% among the fourteen (14) identified hindrance factors by the eighty-one (81) respondents.

4.4 Fear of Ownership Dilution

Executives expressed concern over losing control of their companies. Many preferred private ownership to avoid shareholder interference. This echoes findings by Brau and Fawcett (2006), who identified fear of control loss as a global listing deterrent (Brau, 2006). The study showed that thirty-seven (37), representing 42% of the respondents considered operational preparedness as most important while twenty-four (24), representing 27.3% were neutral about the importance of operational preparedness. Twenty-one (21) representing 23.9% considered operational preparedness as somewhat important in influencing decision making towards company listing on the LuSE. Four (4) respondents representing 4.5% considered the factor somewhat less important while 2 representing 2.3% considered it not important. See figure 6 below.

Figure 6: Rating of the Importance of Operational Preparedness in LuSE Listing Decision Making



The findings indicated in the figure above were like Musawa *et al* (2017) who concluded that operational preparedness or in other words, the desire to maintain full control had significant negative effect on the desire to list on the securities exchange market. La Porta *et al.*, (2000), also highlighted that companies with concentrated ownership or management may resist listing due to concern of losing control and or sharing decision making powers with outside shareholders (Sikalumbi, 2023).

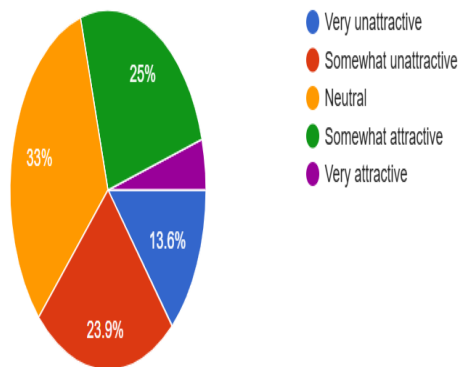
4.5 Market Infrastructure and Liquidity

Participants were skeptical about the market's ability to offer liquidity. With few actively traded stocks, there is a perception that listing may not yield the desired capital or investor attention.

4.5.1 LuSE Market Condition and Infrastructure

Twenty-nine (29) representing 33% of the respondents were indifferent about the attractiveness of the LuSE to potential investors while twenty-two (22) representing 25% of the respondents indicated that the LuSE market was somewhat attractive. Twenty-one (21), representing 23.9% of the respondents, indicated that the LuSE market was somewhat unattractive and twelve (12) indicated that the market was very unattractive. Four (4) representing 4.5% indicated that the LuSE market condition was very attractive to potential investors. Figure 7 below refers

Figure 7: Rating of LuSE Attractiveness to Potential Investors

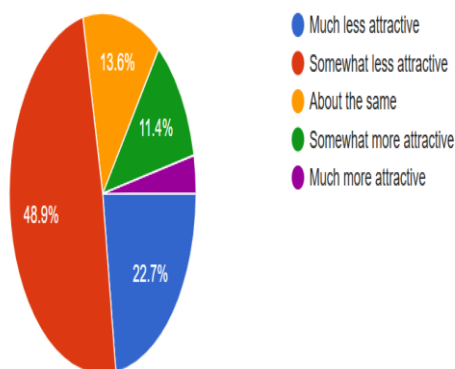


As can be seen from the figure above, 67.5% of the respondents did not rate the LuSE somewhat or very attractive to potential investors.

4.5.2 LuSE Market Liquidity and Investor Perception

Forty-three (43) representing 48.9% of the respondents indicated that the LuSE market was somewhat less attractive for listing in comparison with other regional securities exchange markets while twenty (20) representing 22.72% indicated that the LuSE was much less attractive. Twelve (12) representing 13.6% were indifferent and ten (10) representing 11.4% indicated that the LuSE market was somewhat more attractive and three (3) of the respondents representing 3.4% felt that the LuSE was much more attractive in comparison with other regional stock exchanges. Figure 8 below refers.

Figure 8: Rating of LuSE Attractiveness in Comparison with Other Regional Securities Exchange Markets



As can be seen from the figure above, 71.6% of the respondents indicated that LuSE is somewhat and much less attractive compared to the other regional securities exchange markets.

The findings of this study compare with Mutale and Handema (2025), who in their study of *Factors Affecting the Listing of Small Businesses on the LuSE Alternative Market in Zambia* found that the LuSE Alternative Market was perceived as not attractive when compared to the securities and exchanges in the region, that is, JSE, Zimbabwe Stock Exchange (ZSE) and the Botswana Stock Exchange (BSE) (Mutale, 2025).

5. Conclusion and Recommendations

This study confirms that the reluctance of firms to list on the LuSE stems from a multifaceted interplay of economic, regulatory, informational, and cultural or operational barriers. To foster increased participation in the capital market, targeted interventions are recommended. These include simplifying and streamlining regulatory compliance procedures, lowering the direct and indirect costs associated with listing, promoting financial literacy among potential issuers and investors, and strengthening the overall market infrastructure to build confidence and attract a broader base of participants.

Achieving meaningful reform in Zambia's capital markets necessitates deliberate and sustained collaboration among the government, the LuSE, and financial intermediaries. Policymakers should prioritise the implementation of targeted instruments such as tax incentives for newly listed firms, simplified disclosure frameworks for small and medium enterprises (SMEs), and capacity-building programs for market participants as successfully applied in peer markets like Kenya and South Africa (Capital Markets Authority Kenya, 2021); (OECD, 2019).

Expanding participation on the LuSE is not merely advantageous to individual firms seeking long-term financing; it is a strategic imperative for enhancing Zambia's economic resilience, promoting private sector competitiveness, and advancing national objectives related to financial inclusion and inclusive growth (Bank of Zambia, 2017). The experiences of other Sub-Saharan African markets demonstrate that when governments actively support listing through regulatory reform and market development, participation increases significantly, particularly among SMEs and family-owned enterprises (OECD, 2019). Zambia must therefore adopt a proactive, policy-led approach to unlock the full potential of its capital markets as engines of sustainable economic transformation.

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