Is introducing SME's to the stock exchange a winning strategy?

INTRODUCTION

Financial markets are among the dazzling creations of the modern world. John Maynard Keynes once remarked that the stock exchange was merely a beauty contest and the curse of capitalism, and yet no country has abandoned socialism for capitalism considers having achieved its goal before having a financial market. Other countries, those in developing countries, are not the exception.

Since the late 1970s, seeking to replicate what happens in the United States with the Nasdaq small cap fund, many countries have an institutional attitude also promoting small and medium enterprises especially in access to financial markets (Italy in 1978, the UK in 1981 for the creation of the USM-Unlisted Securities Market in 1996- and AIM-Alternative Investment Market-, France in 1983 for the Second Market, 1996 for New Market and from January 2005 to the establishment of "Eurolist by Euronext" and "Alternext")

Vaughan, Grinyer and Birley (1977), were interested in the reasons pushing an entrepreneur to introduce his company to the stock market. They learned that financial and strategic objectives were the main drivers. Indeed, it appears that the stock market is a favorable alternative for the development and growth of SMEs (Desroches and Jog, 1991).

The listing provides a significant cash flow, increases awareness and bargaining power vis-à-vis the various partners (Levasseur and Quintart, 1998), facilitates the mobility of capital (Saada, 1996), control officers (and Deign Joly, 1986) and promotes external growth strategies (Levasseur and Quintart, 1998). However, listing requires time and energy and represents a significant cost to a company of small or medium size (Desjardin, 1999). In addition, it binds to distribute regular dividends and to meet the requirements of transparency and compliance expectations. Besides, the attitude of managers towards risk is influenced by the financial market; which impacts their strategy development. The latter, becomes eventually controlled by participants in the financial market. Consequently, the overall strategic leadership and performance of the SME is influenced (Hambrick and Snow, 1988).

Thus, the main concern of this paper is to investigate whether stock exchange listing influences the strategic leadership of SMEs? And does it contribute to improved financial performance?

For this purpose, we sought to conduct an empirical study on a sample of 25 small and medium companies listed and unlisted, sample similar form of panel data spread over seven years.

The first part of this paper presents the theoretical framework, the problem and the methodology used. The second concerns the presentation and analysis of the results.

Theoretical framework, issues and research methodology

This section briefly presents the theoretical foundations underlying our concern and explains the approach used to seek to find answers. We approach the topic from the perspective of theories of governance. The financial market is, in effect, a spontaneous mechanism and nonspecific (classification Charreaux, 1997) that constrains the strategic leadership and affects performance.

Conclusion

At the end of this study, we could conclude that the stock market launch affects the strategic development for the sake of improving the performance of SMEs.

At first, statistical examination of the evolution of the main indicators depict a substantial decline in the return on equity and invested capital, profit margin and the level of activity. Listed companies after their stock market launch were more oriented towards external growth strategies and debt levels rose. If the bargaining power vis-à-vis their partners can be considered stable (or even negative) on average, the percentage of internationalization is enhanced. Finally, shareholders have seen their dividend rate increase despite loss results. Further examination and critique of these results shows, however, that it is not clear that these changes, although significant, are systematically assigned to scoring phenomenon. We need to use an econometric model to test the significance of this variable and see if it actually influences the profitability and in what direction.

It turned out that the quotation had a dynamic effect on the favorable performance for a very small minority of SMEs. Most often the effect is negative, it leads rather to the conclusion that trading results in a loss of performance than the reverse. In addition, the results of the explanatory model of the evolution of performance after listing (model 2) lead to conclusions that confirm previous tests. Indeed, according to this model, the evolution of performance depends positively and significantly to the internationalization strategy of innovation, growth and bargaining power vis-à-vis the supplier. Apart from export, the other variables showed a significant decrease after the listing in all tests. This explains the performance drop observed. Similarly, the change in performance after scoring depends negatively on the external growth strategy, the bargaining power of customers and debt (coefficient significant). These variables showed an increase, in view of previous tests. The performance is thus affected.

These results more or less affirmed, they lead to question the decision to stock market launch and its traditional justifications sitting on theories of governance? In view of our results, we are tempted to answer in the affirmative. However, we agree completely that the very short horizon is chosen to evaluate the effect of trading on the strategic leaders. Growth strategies, innovation and internationalization have been identified, of course. But their consequences will be at a longer horizon. Moreover, the performance measures used and the analysis tools are not spared criticism. It seems, therefore, that to better understand the effects of the listing on the performance of the SME, it is necessary, within the framework of the extension of this research, to use qualitative studies. Such studies allow a better understanding of the impact of contextual effects and understand how changes in governance systems and adaptations of organizational architecture associated with the listing can improve performance.