

**INTI INTERNATIONAL UNIVERSITY**  
**MASTER OF BUSINESS ADMINISTRATION**

**FACTORS INFLUENCING COMPANIES TO STAY  
PRIVATE: A CASE STUDY FROM MALDIVES**

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## **Abstract**

In the Maldives, due to the high pressure to earn more because of the high living costs, the people are in need of investment opportunities and stock market seems to be a very appropriate choice. However, there are very limited or no investments opportunities available in the Maldivian Stock Exchange.

It is believed that the capital market of the Maldives has a lot of potential to grow and develop and among that a significant part is the stock market. The stock market of the country is under-developed and the main reason for this is the unwillingness of the private companies to go public even though there is the potential and capability.

This research attempts to find out the factors which hold back the companies in the Maldives from going public and looks into ways by which they could be encouraged and persuaded to go public.

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## Declaration by the author

I hereby declare that this thesis is my own work and effort and that it has not been submitted anywhere for any award. Where other sources of information have been used, they have been duly acknowledged.

Name: Safna Hawwa

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Date: 27<sup>th</sup> August 2014

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## ABBREVIATIONS

**AVE:** Average Variance Analysis

**CEO:** Chief Executive Officer

**CFO:** Chief Financial Office

**CMDA:** Capital Market Development Authority

**GDP:** Gross Domestic Product

**IPO:** Initial Public Offering

**MIRA:** Maldives Inland Revenue Authority

**MSE:** Maldives Stock Exchange

**MVR:** Maldivian Rufiyaa

**NPV:** Net Present Value

**PLS:** Partial Least Square

**SEM:** Structural Equation Modelling

**SPSS:** Statistical Package for the Social Sciences

**US:** United States

**USD:** United States Dollar

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# CHAPTER 1: INTRODUCTION

## 1.0 Chapter Overview

The first chapter provides with an overview of the research. The research background is provided from which the problem statement was identified. Based on this the research questions and objectives were formed. Furthermore, the assumptions made in the research are highlighted. The significance of the research is identified, namely the academia, government and the industry followed by the limitations faced with in carrying out the research.

## 1.1 Background of Study

In the Maldives, earning a high income is essential and the main reason for this is the high living cost. According to Maslow (1943) there are five sets of goals for every human being. Among these, the first is physiological needs, which mainly consists of the most basic needs of human beings like food, shelter, and water. As we have to pay a price for everything, which is not free in nature, there is the demand for money. Hence, money is an essential part in our lives as nobody can survive without fulfilling the very basic needs of life.

As humans, the more we earn the more we want to spend. As for the Maslow's hierarchy of needs, humans keep on moving up with their needs and demands as they accomplish. As a result, the more we earn, the more we want. Thus, there is always the pressure to earn more.

In the Maldives, it is found that generally all the products are highly priced. Even the very basic essentials is highly priced in comparison with other countries in the region like Hong Kong, China, Taiwan and Malaysia (Guide, 2014). The main reason for this is the limited resources available in the country and the high dependence on imports (Earthcosts.com, 2008).



Among the very highly priced products in the country are the housing facilities or apartments. Housing being a basic need, everyone has a demand for this product. In the Maldives, one-third of the population reside in Male', the capital city of the country, mainly due to the under-provision of necessary facilities in other parts of the country. This creates a high demand for the apartments in the city where there is a low supply due to geographical reasons.

In comparison with other places in the world, the household accommodation of Male' is considered to be higher (Xpatulator.com, 2014). Male' is considered to be the most congested city in the world and the rents often meet with that of London or New York (Dhonisaurus.com, 2014). For a one-bedroom apartment, on average it costs around MVR11,503.30 (approximately USD 746) while it costs MVR 22,333.33 (approximately USD 1448) for a three-bedroom apartment (Numbeo.com, 2014). In contrast to this, the average disposable income of the country is MVR 9,666.67 (approximately USD 627) ranging from MVR 6,500 to MVR 12,500. That is approximately between USD 421 to USD 810. This clearly shows that the disposable income of the Maldivians is not enough to meet with the necessities and the expenditure requirements. Hence, mainly due to the high living cost in the country (MyTravelCost.com, 2014; Kish.in, 2008) and the high rental rates (Haveeru.com.mv, 2014; Department of National Planning, 2014), the Maldivians are in need of more income. This pressures the Maldivians to do a second job which has its numerous drawbacks.

Given the above circumstances, investments tend to be one of the best options available for the Maldivians. The main interest of investment in the country is in the tourism sector, and the biggest portion of the Gross Domestic Product (GDP) is contributed by earnings made by the tourism industry. Tourism contributes 28% of the GDP (ADB, 2014) followed by fishing (Indexmundi.com, 2014). However, the investment in the tourism industry is highly costly as

most of the investments are to develop resorts or hotels, and it is impossible for the normal citizens of Maldives to afford such kinds of huge investments. For instance, in a recently advertised offer to invest in a resort, an initial payment of USD3.5 million has to be paid to secure the investment in addition to the annual rent of USD2.3 million (GV Marketing Services, 2013). Such large amounts cannot be afforded by a normal citizen.

On the other hand, most of the investments in the tourism industry are made by foreign investors due to high encouragement and persuasion by the Maldivian government. It is considered by the government that such investments are crucial for the development of the country and to create job opportunities (Maldiveshighcommission.org, 2014). As a result, it is difficult for the Maldivians to get their share in the tourism sector investments. Hence, for the above-said reasons, Maldivians are in a state in which alternative investment methods have to be used, which are less costly and easier to invest.

In such a situation, investment in the stock market or the financial market seems to be a very good option. This is a way of earning income without having to commit much time, and also it is not very expensive. On average the prices of the stocks in the MSE (Maldivian Stock Exchange) are MVR152.98 with MVR2 being the lowest and MVR400 being the highest (shown in the appendix A). Hence, most of the people could afford to do investments in stocks and earn income in the form of dividends or capital gains.

In general, when most of the people hear the word "investment," the perception is formed that it is a very huge thing involving a lot of money, expertise and experience. However, according to Kennon (2014), this is not the case and investing in stocks is one of the easiest and most profitable ways to grow money over a long-term. Stock market investments do not need much of an expertise or knowledge, just knowing how it operates and information about the company to invest in is enough (Jamaica-gleaner.com, 2013). As investments in stocks



result in long-term returns, it is even considered to be an ideal investment for retirement where it would be a source of income even after retirement or when you get old and no longer can work (Jamaica-gleaner.com, 2013).

## 1.2 Problem Statement

Given the above circumstances of the country, although investing in stocks tends to be a great option, in the Maldives the problem is that there are very few companies listed in the stock exchange. There are only 6 public companies in the country, and this does not provide much of a choice or opportunity for the people to invest their money in (Mse.com.mv, 2014). So, although the people might want to invest their money in stocks, they do not have the opportunity and the capital market of the country is under-developed.

On top of this, all the companies (except one Sri Lankan company) have at least more than 40% government ownership (Cmnda.gov.mv, 2014). This limits the amount of shares, which is available for the public.

Hence, there is the need for more companies to go public so that more investment opportunities are available. To do this, it is important to find out why the private companies are not willing to get listed even though they have the potential to go public so that those factors could be given considerations and necessary changes could be made in order to persuade more companies to go public, thus giving more opportunities for the investors. Very little research has been carried out in the Maldives for the subject matter, although there are literatures available for other countries in which such researches have already been carried out.

### 1.3 Research Questions

From the above background and problem statement, the following question was raised for the research.

- Why are the private companies in the Maldives not going public and issuing shares to the general public, although they have the potential to do so? What are the reasons or factors for this? *profit?*

Based on the findings for the above questions the second objective of the research was to find out how these companies could be persuaded to go public and the following question was formed.

- How could these companies be encouraged and persuaded to go public?

### 1.4 Research Objectives

The main objectives of the research would be to find out the factors which influence the private companies of the Maldives to stay private rather than going public and to find out ways in which those companies could be encouraged to go public based on the findings.

RO1: To examine the factors which influence the Maldivian companies to stay private.

RO2: To examine ways in which the private companies could be encouraged to go public.

### 1.5 Scope of the Study

The main objective of the research is to find out the factors which influence the private companies in the Maldives to stay private rather than going public even though they have the potential to go public. Finding these factors would help the respective agencies and