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Effects of Demutualization on Stock Market Performance and Economic Growth

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ABSTRACT

This paper shows how demutualization of the Nigerian Stock Exchange affects stock market performance and economic growth. Using time series data from 2006 to 2021, the data for All Share Index, Market Capitalization and Nominal Gross Domestic Product were sourced from CBN statistical bulletin, while data for equity, investment in subsidiaries, number of directors, profit before tax, personnel salaries and revenue were sourced from the annual reports of the NSE which was used to proxy Demutualization, the data were analyzed using Ordinary Least Square (OLS) regression method. Findings showed that the All Share Index of the stock exchange market is positively and significantly affected by the investments made by the NGX in their subsidiaries as well as the operating surplus/profit before tax recorded by the NGX and the revenue generated by the NGX was also found to have negative and significant effect on the economic growth of Nigeria. Based on the findings of the study we conclude that demutualization is a process that would have its imprints all over the stock exchange market and the Nigerian economy as a whole and thus recommended that the NGX should also continue to improve their equity through retained earnings and continuous reinvestments especially at this early stage of demutualization and efficient decision making should be encouraged by keeping the number of directors at the barest minimum.

Keywords; Stock market, Demutualization, Market capitalization, Economic growth, Gross domestic Product.

I. INTRODUCTION

Since inception, the Nigerian stock exchange has been registered as a mutual company limited by guarantee. This means that it should operate as a non-profit making organization. In 2017, the stakeholders of the exchange met and passed a resolution to demutualize the exchange, which is to turn the Nigerian stock exchange from a non-profit making organization to a profit making organization. The demutualization bill was passed into law in August 2018, which marked the official commencement of the demutualization process.

In December 1997, the Lagos Stock Exchange was rechristened the Nigeria Stock Exchange and several branches were established in some of the major commercial cities of the country. Currently there are 13 branches of the NSE located in the following states; Abuja, Kaduna, Port Harcourt, Kano, Onitsha, Ibadan, Yola, Benin, Uyo, Ilorin, Abeokuta, Owerri and Bauchi (Muftau, 2019).

The NSE is regulated by the Securities and Exchange Commission which is involved in the surveillance of the Exchange to forestall breaches of market rules as well as to detect and prevent unfair manipulations and trading practices, (Muftau, 2019).

In 1993, Stockholm Stock Exchange was the first to demutualize which now caused demutualization of a number of stock market around the world, (Nyangara and Mazviona, 2014). The changing landscape in the world's capital and financial markets arising from globalization has been cited as the reason for demutualization, (Aggarwal, 2002). With new developments in technology and the competitive environment, this

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has brought about changes in ownership form of different stock exchanges.

Demutualization pace has been very slow in emerging markets as compared to developed economies. By 2005, about 21 exchanges in developed markets had demutualized representing almost 40% of the world federation of exchanges as compared to only 5 exchanges in emerging markets, (WFE, 2005; Nyangara and Mazviona, 2014).

The adoption of demutualization by some markets has attracted much attention to both scholars and policy researchers, but there are few works on demutualization and how it affects stock market performance and economic growth, so the general objective of this work is to see how demutualization of the Nigerian Stock Exchange affects stock market performance and economic growth. Other objectives driving this research work is to determine the effects of demutualization on the All Share Index of the Exchange, to ascertain the effects of demutualization on the Market Capitalization of the Exchange and to examine the effects of demutualization on the economic growth in Nigeria.

The rest of this paper is as follow; section 2 which provide a brief review of the literature on demutualization; section 3, shows the methodology of the study; section 4, presents the findings and section 5, concludes the study.

II. REVIEW OF RELATED LITERATURE

The Concept of Demutualization

Demutualization is the shifting of ownership from members and other insiders to outside investors. Demutualization takes an exchange from being a mutual company to being a listed company. It increases ownership interest while conflict among owners is reduced. Demutualization refers to the change in the legal status of an entity from a mutually owned association into a company limited by share; it is the process of converting a non-for-profit member owned organization to a for-profit, investor-owned corporation, (Okiemute, 2021).

Demutualization separates ownership and visiting rights from the rights of access to trading. Demutualization of exchanges was kick started by Stockholm's exchange in 1993 and they started listing in 1998 after which major exchanges around the world followed suit. Since the first demutualization of Stockholm stock exchange in 1993, leading stock exchanges all over the world followed suit. Also, a number of stock exchanges in emerging markets have demutualized.

Demutualization on the NSE will bring Nigeria capital market in line with the prevalent international practices and standards. It will also result in enhanced governance, transparency and global visibility whilst attracting strategic investors and significant inflows of capital. In 2017, a resolution was passed by members of the exchange authorizing demutualization.

Stakegaining.com,(2017) stressed that demutualization is being floated by numerous stakeholders in capital markets all over the world. The concept of demutualization is the process by which a mutual company like NSE owned by its members converts into a company owned by shareholders. It is a process that changed a mutual or corporative association into a public company by converting the interests of the members into shareholding. Those shareholdings can be traded in the capital market as shares of company. The idea of demutualization is to change the structure of exchanges that were originally formed as trusts.

Before carrying out the demutualization plan, the council members of the exchange will seek and get authority from SEC to proceed with the process of converting NSE into a public company that is limited by shares. To achieve demutualization, the NSE has to incorporate a company limited by shares and alter its memorandum and articles of association.

Shift in ownership and corporate governance led to the demutualization of many exchanges around the world. This is to be in line with global competition and economic growth. By converting member owned non-profit organization into profit making investor owned organization, demutualization will give NSE access to the capital market. Demutualization helps in strengthening the corporate governance structure of NSE ((Ohini and Akande, 2017).

Writing on the road to demutualization of the Nigerian stock exchange (NSE), explained that a company limited by guarantee, is currently in the process of being demutualized into public company limited by shares (plc). When concluded, the shares of NSE will be offered for public subscription and will be subject to the rules governing companies in Nigeria. NSE will carry on business activities with the aim of making profits as in the case with regular corporate entities. It will also permit NSE to constitute board of directors to oversee the operation (Ogedemgbe and Akewushola, 2020).

For over 10 years now, demutualization has been an NSE agenda, since 2011. In 2011, a 21-member technical committee was instituted and charged with developing a legal framework for the demutualization process. This was followed in

2014 by the issuance of request for proposals from local and foreign advisers to guide the NSE through the process. On the 12th of April 2015, the SEC which is the regulator of capital markets in Nigeria issued the rules on demutualization of security exchanges in Nigeria. The movement to demutualize NSE grounded to a halt until 2017 when the process recommenced.

The demutualization process of the Nigerian stock exchange

The Nigeria Stock Exchange (NSE) was a company limited by guarantee up until the demutualization process was concluded. Upon completion, its shares became available for public ownership and are now subject to the rules and regulations governing companies in Nigeria (NGX Group, 2021). This conversion permitted the NSE to carryon business activities to make profits, as is the case with regular corporate entities. It also permitted the NSE to constitute a board of directors to oversee its operations. This gave rise to a new structure; Nigerian Exchange Group Plc (NGX Group) with subsidiaries- Nigerian Exchange Limited (NGX Exchange), Nigerian Exchange Regulations (NGX REGCO) and Nigerian Exchange Real Estate Limited (NGX RELCO), (NGX Group, 2021).

The Nigerian Exchange Group (NGX) is such an example of a demutualized company which announced the development in an update published on its website on Wednesday, March 10, 2021. This makes the Nigerian Stock Exchange (NSE) join the league of Johannesburg Stock Exchange and Nairobi Stock Exchange, which are already publicly listed companies.

Challenges of Demutualizing the NSE

Some of the challenges that could arise as a result of demutualization varies from, conflicts of interest management because exchanges is principally profit driven, to using its position as both market participant and market regulator to its own advantage, and the possibility of sacrificing effective regulation for the short-term goal of maximizing shareholder's profit to be achieved.

Prospects of Demutualization of NSE

Demutualization helps in strengthening the corporate governance structure of NSE. The demutualization of NSE would make the exchange to function better like its peers in Johannesburg stock exchange, Nairobi stock exchange and Kenyan stock exchange that had already undergone the process. It will unlock more capital for the market. For example, a share placed as collateral can be traded upon and profit made (Ohini and Akande, 2017).

The concordant tunes trailing the NSE demutualization affirm that the exercise would unlock more capital for wealth creation and ultimately stimulate economic growth. It will help reactivate idle capital in the market thereby boosting economic activities. Demutualization will attract the enlistment of NNPC and LNG in the market which will make more dead capital alive (Orji 2020). Demutualization of NSE will boost stock exchange and economic growth in Nigeria (Egene2020).

Some of the reasons for demutualization includes but not limited to the following; to unlock more avenues for capital mobilization, to finance operations and strategic plans. Beyond the traditional sources of funding itself, the NSE has unlimited access now to mobilizing funds from the investing public worldwide through issuance of its own securities. Demutualization leads to capital raising flexibility. The NSE can also now maximize its profit by commercialization of its services in line with what the market can bear. This expected enhancement in financial status will enable the NSE to continuously upscale in every ramification, (Adonri, 2021).

Theoretical Framework

Transaction cost theory was formulated by Ronald Coase in 1937 a British economist who justify the existence of firm. It holds that the rationale for the existence of firms is reduction in transaction costs. It views a firm as a composition of several contracts which economies and reduces the transaction cost. The theory offers an explanation on the rising number of demutualized exchanges around the globe by highlighting that increased level of competition resulting from the use of advanced and sophisticated forms of technology has lowered transaction costs of trading on security by investors. It also gives room for flexible pricing and reduced chances of manipulation of market prices which exists in mutually owned exchanges. The theory also suggests that transaction costs of security exchanges inc. with inc. in information asymmetry, uncertainty and room of opportunistic attributes as well as participants behavior. These features are common in mutual companies.

Empirical Review

Nyangara and Mazviona, (2011) in their paper analyzes the impact of demutualization on stock market liquidity using annual data available on 26 demutualized stock exchanges from 1990-

2011, using panel data regression to examine the nature and significance of relationship between stock exchange demutualization and two stock market liquidity instruments (The turnover and value of traded securities) to GDP. Their findings show that demutualized exchanges exhibit significance liquidity. They also found that demutualization has a positive and statistically significance effect on liquidity.

Mwangi, (2018) in the study of the impact of demutualization on the financial performance of stock exchange: A case of Nairobi securities exchange. The study used data on share prices of the Nairobi stock exchange. The data was analyzed using SPSS. The study found out that the pre-demutualized market had significant impact on the financial performance of Nairobi Stock Exchange (NSE) while post demutualization has significant impact in NSE. He concludes that demutualization has significant impact on financial performance.

Adul, Alyas, Sehar, Munawar and Syed (2014) studied demutualization of stock exchanges and stock market growth; broader economic investigation of demutualized exchanges. Their objective is to investigate whether demutualization leads to better stock market performance of the stock exchange. Using the before and after data of 13 stock exchanges collected from World Federation of Exchanges (WFE) using Wilcoxon sign rank test, they found out that exchanges perform better after demutualization except in low level economics.

Tahir, Sial, Zulfiqur and Usman (2014) examined effect of demutualization on the financial performance of the stock exchange in developing economies using a paired sample test and wilcoxon sign rank test was used to analyze three demutualized exchanges, with data from annual report of the exchange, two years before and after demutualization. The results show that most of the exchanges perform better after demutualization

Ibrahim, (2012) Studied the effect of demutualization on the financial performance of the financial and investment firms quoted at the Nairobi security exchange. They studied how demutualization impacted the financial and investment companies listed in NSE. He used event research design and adopted descriptive and inferential statistics using secondary data collected from NSE. Applying regression analysis, the study found that there is increase in the trend of return on assets in five years and that the market price to book value ratio decreased. They also discovered a significant positive correlation between return on equity and market price to book value and between return on equity and leverage.

Ali,Wana and Ali (2019) examined the impact of demutualization on market quality. They studied 137 non-financial firms listed on demutualized Pakistan stock exchange and found out that transaction cost reduced by demutualization. They concluded that demutualization reduced transaction cost and has improved market quality.

Isam and Islam (2011) investigated Demutualization: Pros and cons for Dhaka stock exchange (DSE). They examined the implication of demutualization on the Dhaka stock exchange by examining existing literature for stock exchanges already demutualized. Their results show that all benefits derived from demutualization are not applicable to Bangladesh. They revealed that in as much as demutualization has benefits, it also attracts risks.

Wahid, Adil, Talib and Azam(2017)The examined the Impact of demutualization on the stock market indicators on Bombay & India stock exchange using wilcoxon sign rank test, pair sample T. test and manova, engaging data 4 years before and after collected from WFE (World federation of Exchanges). Their findings showed significant difference in stock index – market capitalization, value of shares traded and the number of listed companies before and after demutualization of Indian stock exchange. Also the result of Manova which shows significant influence of demutualization on stock market indicators and they conclude that demutualization leveraged the Indian stock exchange to a great extent.

III. METHODOLOGY

This study uses time series data and the data for ASI, MCAP and NGDP were sourced from CBN statistical bulletin, while data for equity, investment in subsidiaries, number of directors, profit before tax, personnel salaries and revenue were sourced from the annual reports of the NSE (2006 to 2021).

Therefore, three functional models were developed for this study as follows;

Model 1: ASI = f(Demutualization)

Model 2: MCAP = f(Demutualization)

Model 3 NGDP = f(Demutualization)

Where; ASI, MCAP and NGDP represent, All Share Index, Market Capitalization and Nominal GDP respectively.

Demutualization is expected to reflect in the profit-orientation, equity, number of directors, revenue and investments in subsidiaries on the Nigerian Stock Exchange (now referred to as Nigerian Exchange Group). Therefore, the model was further developed thus;

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Model 1: ASI = f(EQUITY, INSUB, NDIR, PROFIT, PSAL, REV)
Model 2: MCAP = f(EQUITY, INSUB, NDIR, PROFIT, PSAL, REV)
Model 3 NGDP = f(EQUITY, INSUB, NDIR, PROFIT, PSAL, REV)
Where, EQUITY, INSUB, NDIR, PROFIT, PSAL and REV represent equity (formerly referred to as accumulated fund before the demutualization), investment in subsidiaries, number of directors (formerly referred to as council members before the demutualization), profit before tax (formerly referred to as operating surplus before the demutualization), personnel salaries and revenue respectively.
The econometric equations of the study are as follows

$$ASI = \alpha_0 + \alpha_1 EQUITY + \alpha_2 INSUB + \alpha_3 NDIR + \alpha_4 PROFIT + \alpha_5 PSAL + \alpha_6 REV + \mu_t \quad (1)$$

$$MCAP = \alpha_0 + \alpha_1 EQUITY + \alpha_2 INSUB + \alpha_3 NDIR + \alpha_4 PROFIT + \alpha_5 PSAL + \alpha_6 REV + \mu_t \quad (2)$$

$$NGDP = \alpha_0 + \alpha_1 EQUITY + \alpha_2 INSUB + \alpha_3 NDIR + \alpha_4 PROFIT + \alpha_5 PSAL + \alpha_6 REV + \mu_t \quad (3)$$

The data were analyzed using Ordinary Least Square (OLS) regression method. The criteria for analyzing and interpreting the results include; the regression coefficients, the t-statistic and p-values, the prob(F-statistic), the r-squared and the Durbin-Watson.

IV. RESULTS

The results of the OLS regression analysis are discussed according to the models of the study. The result of the analysis for model 1 are shown in Table 1 and it contains the regression coefficients, the t-statistic and p-values, the prob(F-statistic), the r-squared and the Durbin-Watson,.

Model 1: ASI = f(EQUITY, INSUB, NDIR, PROFIT, PSAL, REV)

Table 1: Regression Result for ASI and Demutualization

Dependent Variable: ASI
Method: Least Squares
Date: 09/23/22 Time: 10:50
Sample: 2006 2021
Included observations: 16

Variable	Coefficient	Std. Error	t-Statistic	Prob.
EQUITY	-365.2134	437.2748	-0.835203	0.4252
INSUB	5730.164	2182.049	2.626048	0.0275
NDIR	396.6510	593.5403	0.668280	0.5207
PROFIT	5476.333	1024.849	5.343554	0.0005
PSAL	633.5421	2294.750	0.276083	0.7887
REV	-41.68648	349.0788	-0.119419	0.9076
C	13419.18	17597.48	0.762563	0.4652

R-squared	0.861836	Mean dependent var	33002.72
Adjusted R-squared	0.769727	S.D. dependent var	9526.743
S.E. of regression	4571.571	Akaike info criterion	19.99274
Sum squared resid	1.88E+08	Schwarz criterion	20.33074
Log likelihood	-152.9419	Hannan-Quinn criter.	20.01005
F-statistic	9.356702	Durbin-Watson stat	2.663706
Prob(F-statistic)	0.001906		

Source: Eviews 10 OLS Regression Output, 2022

The results shown in table 1 indicate that equity and revenue generated by the Nigerian Exchange Group (NGX) have negative and insignificant effects on the All Share Index of the stock market. Their coefficients indicate that every billion naira increase in equity and revenue of the NGX would result in a decline of 365.2 and 41.7 respectively, in the All Share Index. On the other hand, investments in subsidiaries, number of directors, profit before taxes and personnel salaries positively predict the All Share Index of the stock market. However, only investments in subsidiaries and profit before tax (formerly referred to as operating surplus) have significant effect on All Share Index. Every billion naira investment in subsidiaries and profit made by the NGX have led to increases of 5730 and 5476, respectively in All Share Index in Nigeria.

The R-squared value of 0.861836 indicates that about 86.1% of the variations in the All Share Index can be explained by the combined trend in the proxies for demutualization.The prob(F-statistic) is less than 0.05 which indicates that the overall effect of the demutualization variables on the All Share Index is significant. The Durbin-Watson statistic further revealed that the regression is free from the problems of Auto-correlation as the obtained DW statistic is greater than the lower (0.502) and upper limits (2.388) of the tabulated DW statistic (n=16, k = 6)

Model 2: MCAP = f(EQUITY, INSUB, NDIR, PROFIT, PSAL, REV)

Table 2: Regression Result for MCAP and Demutualization

Dependent Variable: MCAP
Method: Least Squares
Date: 09/23/22 Time: 10:58
Sample: 2006 2021
Included observations: 16

Variable	Coefficient	Std. Error	t-Statistic	Prob.
EQUITY	958.1101	181.1038	5.290392	0.0005
INSUB	4433.277	903.7275	4.905546	0.0008
NDIR	-247.3281	245.8234	-1.006121	0.3406
PROFIT	1335.271	424.4561	3.145840	0.0118
PSAL	-657.7331	950.4045	-0.692056	0.5064
REV	-380.5353	144.5761	-2.632076	0.0273
C	7057.102	7288.254	0.968284	0.3582

R-squared	0.979989	Mean dependent var	18037.49
Adjusted R-squared	0.966649	S.D. dependent var	10367.70
S.E. of regression	1893.383	Akaike info criterion	18.22975
Sum squared resid	32264106	Schwarz criterion	18.56776
Log likelihood	-138.8380	Hannan-Quinn criter.	18.24706
F-statistic	73.45969	Durbin-Watson stat	2.162058
Prob(F-statistic)	0.000000		

Source: Eviews 10 OLS Regression Output, 2022

The results shown in table 2 indicates that equity, investment in subsidiaries and profit of the NGX all have positive and significant effect on the market capitalization of the stock exchange market. With the coefficients of 958.1, 4433.3 and 1335.3, every billion naira increase in the equity, investments in subsidiary and profit of the NGX will lead to increases of ₦958bn, ₦4,433.3bn and ₦1,335.3bn in the market capitalization in the stock exchange market.

On the other hand, number of directors, personnel salary and revenue of the NGX has negative effects on the market capitalization of the stock exchange market. However the effect is only significant in the case of revenue. The regression coefficient reveals that increasing the personnel salary and revenue by a billion naira each would result in decreases of ₦657.7bn and ₦380.53bn in the market capitalization of the stock exchange market. While for each individual added to the directors or council of the NGX, market capitalization of the stock exchange market in Nigerian would reduce by ₦247.3bn.

The r-squared value of 0.979989 reveals that about 97% of the changes in market capitalization is explained by the combined variation in the demutualization variables. The probability value of the F-statistic is 0.0000 which is less than 0.05. This indicates that the combined effect of the demutualization variables on market capitalization is significant. The Durbin-Watson statistic value of 2.162 is greater than the lower limit of the tabulated DW statistic (0.502) but is lower than the upper limit of 2.388. Therefore, the presence of autocorrelation problems is inconclusive.

Model 3: NGDP = f(EQUITY, INSUB, NDIR, PROFIT, PSAL, REV)

Table 3: Regression Result for NGDP and Demutualization

Dependent Variable: NGDP
Method: Least Squares
Date: 09/23/22 Time: 11:04
Sample: 2006 2021
Included observations: 16

Variable	Coefficient	Std. Error	t-Statistic	Prob.
EQUITY	5769.505	546.3250	10.56057	0.0000
INSUB	2510.706	2726.221	0.920947	0.3811
NDIR	-1875.236	741.5609	-2.528769	0.0323
PROFIT	1953.497	1280.431	1.525656	0.1614
PSAL	-920.6901	2867.029	-0.321130	0.7554
REV	-2690.428	436.1342	-6.168808	0.0002
C	67481.88	21986.04	3.069305	0.0134

R-squared	0.990377	Mean dependent var	89318.90
Adjusted R-squared	0.983962	S.D. dependent var	45101.08
S.E. of regression	5711.657	Akaike info criterion	20.43804
Sum squared resid	2.94E+08	Schwarz criterion	20.77605
Log likelihood	-156.5043	Hannan-Quinn criter.	20.45535
F-statistic	154.3797	Durbin-Watson stat	2.584974
Prob(F-statistic)	0.000000		

Source: Eviews 10, OLS Regression Output, 2022

Table 3 shows that equity, investments in subsidiaries and profit before tax of the NGX all have positive coefficients of 5769, 2510.7 and 1953.5 respectively. This indicates that equity, investments in subsidiaries and profit before tax of the NGX have positive effects on the economic growth of Nigeria. The p-values indicate that effect of equity is significant while the effects of profit before tax and investments in subsidiaries are insignificant.

On the contrary, number of directors, personnel salaries and revenue of the NGX all has negative effects on the economic growth in Nigeria. The corresponding probability values further indicate that the effects of number of directors and revenue are significant while the effect of personnel salaries is insignificant.

The F-statistic value of 154.4 has a probability of 0.000 which is less than 0.05. This indicates that the overall effect of demutualization on economic growth is significant. The R-squared value of 0.9904 is an indication that up to 99% of the changes recorded in the economic growth of Nigeria can be explained by the general trend in the demutualization variables. The DW statistic value of 2.58497 is greater than the lower (0.503) and upper (2.388) limits of the tabulated DW statistic (n = 16; k = 6).

V. DISCUSSION OF THE FINDINGS

The successful demutualization of the Nigerian Stock Exchange (now referred to as the Nigerian Exchange Group; NGX Group) is certainly going to transform its structure and operation in terms of profit-orientation, remuneration of staff, board and management, shareholders (equity) and investments. This study therefore sought to predict how these reforms would play out on the performance of the stock market and ultimately, the growth of the Nigerian economy. Three models were therefore developed to examine how demutualization variables (made to comprise of profit before tax, revenue, investment in subsidiaries, equity, number of directors and personnel salaries) would affect All Share Index, market capitalization and economic growth.

The findings of the study revealed that the All Share Index of the stock exchange market is positively and significantly affected by the investments made by the NGX in their subsidiaries as well as the operating surplus/profit before tax recorded by the NGX. Other variables of demutualization had insignificant effects on the All

Share Index. This indicates that with a statistical precision of 95%, we can predict that the NGX now being a profit-oriented firm through demutualization will trigger significant improvement in the All Share Index of the stock market. Ali, Wana and Ali (2019) found that reduced transaction costs is one of the benefits of demutualization and this reflects in the profitability of the NGX as well as the All Share Index. Investments in subsidiaries are another way in which demutualization positively affects the All Share Index. The subsidiaries of the exchange include NSE Consult Ltd., Coral Properties Ltd., NGX Real Estate Ltd., Nigerian Exchange Ltd. and NGX Regulation Ltd. These companies in their own capacity contribute to the performance of the stock market as is indicated by the ASI. The Findings further revealed that the overall effect of demutualization on the All Share Index of the stock market is significant.

Investments in subsidiaries of the Nigerian Exchange Group were also found to significantly improve the market capitalization of the stock market. Following the demutualization of the Exchange, investments in subsidiaries are further expected to be on the increase and this trend has been shown to trigger improvement in the market capitalization of the stock market. The equity of the NGX has also been found to significantly improve the market capitalization of the Nigerian stock market. This indicates that the aspect of demutualization which requires the NGX to operate as a public company with shareholders will have a positive and significant effect on the market capitalization. Nyangara and Mazviona (2011) also found that demutualization improved the liquidity of the stock market. The study of Mwangi (2018) also made a strong and positive connection between financial performance of the Nairobi Stock Exchange and market capitalization. Furtherance to this finding, the results of the regression model further revealed that the profit generated by the NGX has a positive and significant effect on the Market capitalization. Contrastingly however, the revenue generated by the NGX has negatively affected the Market capitalization to a statistically significant extent. This is no surprise owing to the fact that a large portion of the NGX revenue is raised from transaction fees, charges and subscriptions which are disincentives for joining the exchange market. The overall effect of demutualization on market capitalization of the stock market was found to be significant.

The revenue generated by the NGX was also found to have negative and significant effect on the economic growth of Nigeria. This indicates that the orientation to raise more revenue, which is characteristic of demutualization, would have negative effect on the economic growth of Nigeria. Demutualization also comes with improved managerial functioning and this is evidenced in a reduction in the number of directors. This study found that the number of directors at the NGX has a negative and significant effect on the economic growth of Nigeria. Studies have shown that a smaller board size aids better decision making and this reflects in operational efficiency which trickles down to the entire economy. Improvement in equity of the NGX has also caused positive economic growth in Nigeria to a significant extent. Generally, the effect of demutualization on economic growth in Nigeria is significant.

VI. CONCLUSION

Based on the findings of the study we conclude that demutualization is a process that would have its imprints all over the stock exchange market and the Nigerian economy as a whole. This is majorly due to the improvement in equity, investments in subsidiaries as well as the profitability that accompanies demutualization. This study rides on the findings thereof to make the following recommendations;

- The NGX should consider raising revenue from other sources that are not negatively correlated with patronage of the stock market.
- The NGX should also continue to increase its investments in subsidiaries and should consider funding more companies that play key roles in the performance of the stock market and the Nigerian economy as a whole.
- The NGX should also continue to improve their equity through retained earnings and continuous reinvestments especially at this early stage of demutualization.
- Efficient decision making should be encouraged by keeping the number of directors at the barest minimum.

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