UNIFICATION OF CAPITAL MARKETS.
EXAMPLE OF TOURISM COMPANIES

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Purpose – the purpose of this study is to verify capital rising possibilities on stock exchanges - individual and unified within a group. Hospitality sector is chosen for the empirical verification.

Design/methodology/approach – in order to gather information extensive data mining has been performed. Four approaches to stock exchanges integration have been identified and compared in the light of listed companies' capital rising possibilities. Research took place in the European Union.

Findings – companies listed on stock exchanges unified within a group have greater capital rising possibilities due to higher market size, depth, liquidity and effectiveness.

Limitations – the research was concentrated on the regulated market only. The inclusion of alternative markets in the subsequent research is needed.

Originality/value – the novelty in the paper refers to the presentation of capital rising possibilities for tourism enterprises on stock exchanges with different approaches to unification.

Keywords: capital market, stock exchange group, hospitality.

Conference participant

1. Introduction

Contemporary world seek to unify in many diversified fields. One of the best examples of unification is the creation and enlargements of European Union. Different domains are systematically uniformed across member states [European Union]. One of the crucial areas of interest of EU28 is the economic growth. At the same time tourism is considered to be one of the motors of future development.

European economics functions efficiently if enterprises’ capital needs are fulfilled. Region traditionally dominated by bank loans recognises more and more capital markets. It can be observed in more than 20 major stock exchanges in Europe.

As the whole economics, exchanges manifest the propensity to unify. They undergo mergers and acquisitions and tend to operate within groups instead of functioning individually. What can be seen as particularly interesting is: how enterprises’ capital rising possibilities differ in exchanges operating individually and within a group.

2. Literature review

Capital markets are important sources of capital for companies. After fulfilling listing requirements companies can undertake an initial public offering (IPO) and sell stocks for the first time to the general public. Brand recognition and prestige also increase. Capital obtained through stock exchanges is in the enterprise’s disposal fast and isn’t burden with interests.

Securities can be sold outside the public market but in this way publicity is restrained and number of recipients is limited [Dobosiewicz 2007, p. 30]. That is the reason why companies decide to undergo more expensive public offering and enter the public market. There exist two basic markets for companies to get into. Firstly, it’s the regulated one; secondly it’s the alternative one. By alternative market a multilateral trading facility (MTF) is meant. MTFs offer lower prices and lower information release requirements but are less sustainable and less prestigious.

Companies can issue stocks on several exchanges that results in enlarging capital rising possibilities, increases liquidity and rises credibility and brand recognition [Płokarz 2013, p. 135-139]. However cross-listing is a risky manoeuvre. One of the ways to limit the risk is the use of depository receipts (Global Depository Receipts – GDR, Euro Depository Receipts – EDR etc.). Other one is to list directly on international exchanges operating in several countries.

Capital market undergoes constant unification process. Especially a last dozen of years is rich in mergers and acquisitions. European market came a long way from highly diversified to more centred one. In 2003 Stockholm Stock Exchange merged with Helsinki Stock Exchange to form OMX. Later Copenhagen, Reykjavik, Tallinn, Vilnius and Riga stock exchanges joined. The whole group was acquired in 2008 by NASDAQ in order to form one of the biggest pancontinental exchange platforms [NASDAQ OMX]. In Spain four regional exchanges in Madrid, Barcelona, Valencia and Bilbao formed one exchange platform with four entry points. The organisation is operated by Bolsas y MercadosEspaçoles (BME) and was created in 2006 [Bolsas y MercadosEspaçoles]. In central and east Europe (CEE) region the CEESEG AG is responsible for strategic and financial management of four exchanges executing business operations under their independent management [CEESEG]. These exchanges are: Vienna, Prague, Ljubljana and Budapest stock exchanges. However not all exchanges seek to become part of a group. Another stock exchange operating in central Europe is Warsaw Stock Exchange (WSE). It’s the biggest stock exchange in region and it operates individually [Warsaw Stock Exchange].

Tourism companies have been selected for exemplification for two reasons. First because of their crucial importance for world [Politis et al. 2009, s. 463] and especially European economics in which tourism employs approximately 10 millions people [Ernst & Young 2013]. Second because of the strong interconnection between tourism and other economy’s sectors [Skurasi in., 2005, s. 338]. Tourism is strongly related to: transport, entertainment, recreation, information services, retail, sport etc. [Eurostat 2008].

3. Methodology

In order to study capital rising possibilities on individual and unified within a group stock exchanges present research has been conducted in early
2014 in European Union. Tourism enterprises’ capitalisation and number have been identified in four stock exchanges differing in the approach to integration. The stock exchanges have been identified as follows. Firstly - two groups have been assumed: stock exchanges operating individually and stock exchanges unified within a group. Secondly both groups have been divided in two subgroups.

Stock exchanges operating individually have been divided into: (1) exchanges operating fully alone and (2) the ones executing business operations alone, but strategically leaded by a financial organisation. Stock exchanges unified within a group have been divided into: (3) national groups and (4) international groups.

Four stock exchanges have been carefully selected to exemplify the theoretical assumptions [World Federation of Exchanges 2014]:
1. Warsaw stock exchange (WSE).
2. CEE Stock Exchange Group (CEESEG).
4. NASDAQ OMX (European part without Iceland)

All necessary data have been gathered from stock exchanges’ websites and through e-mail correspondence. Deductive reasoning has been employed. Results took a descriptive form.

### 4. Results

The research’s first step was to analyse overall capitalisation and number of listed companies on chosen stock exchanges. Data is presented in table 1.

In the chosen sample stock exchanges unified within a group surpass the ones operating alone in capitalisation. However the number of companies listed in the two groups is similar (903 in the first group and 1003 in the second group). It results from different companies’ average size. Bigger companies claim higher capital needs and chose to be listed on bigger and deeper markets. The depth increases the chance of successful IPO, whilst market size facilitate securities exchange due to high number of potential investors.

Second step was to analyse tourism companies’ capital rising possibilities and their number on chosen stock exchanges. Data is presented in table 2. Tourism companies have the biggest joint capitalisation in exchanges unified within a group and the smallest in exchanges operating individually.

Joint capitalisation at NASDAQ OMX is 7,5 times higher than the one at CEESEG. However in both previously identified groups the number of listed tourism companies is similar. In the first one equalling 19 companies and in the second one equalling 17. The difference streams from the difference in average size of tourism companies listed in both groups. Bigger companies are listed on stock exchanges operating within a group. As a matter of fact stock exchanges operating within a group join together several “floors” (i.e. Madrid, Barcelona, Valencia and Bilbao) to form an exchange platform with increased liquidity. Also instead of getting listed on several stock exchanges, tourism companies aim to benefit from unification as it guarantees higher effectiveness, rules and infrastructure uniformity and accessibility of more financial instruments. Lastly, tourism enterprises

### Tab. 1. Capitalisation and number of companies listed in four chosen stock exchanges

<table>
<thead>
<tr>
<th></th>
<th>Capitalisation</th>
<th>Number of companies listed</th>
<th>Average company size</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>NASDAQ OMX</td>
<td>934 035 270 000</td>
<td>723</td>
</tr>
<tr>
<td>2</td>
<td>BME</td>
<td>769 091 650 000</td>
<td>180</td>
</tr>
<tr>
<td>3</td>
<td>CEESEG</td>
<td>125 267 270 000</td>
<td>559</td>
</tr>
<tr>
<td>4</td>
<td>WSE</td>
<td>126 680 730 000</td>
<td>444</td>
</tr>
</tbody>
</table>

Source: own development

### Tab. 2. Capitalisation and number of tourism companies listed in four chosen stock exchanges

<table>
<thead>
<tr>
<th></th>
<th>Tourism companies’ capitalisation</th>
<th>Number of listed tourism companies</th>
<th>Average size of tourism company</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>NASDAQ OMX</td>
<td>6 316 453 109</td>
<td>15</td>
</tr>
<tr>
<td>2</td>
<td>BME</td>
<td>3 046 407 060</td>
<td>4</td>
</tr>
<tr>
<td>3</td>
<td>CEESEG</td>
<td>821 908 913</td>
<td>9</td>
</tr>
<tr>
<td>4</td>
<td>WSE</td>
<td>1 532 072 090</td>
<td>8</td>
</tr>
</tbody>
</table>

Source: own development
are better valued whilst investors coming from different origin markets perform the valuation.

Third step consisted on analysing tourism companies in relation to all listed companies. Data is presented in table 3.

The number of tourism companies in relation to total number of companies is higher in stock exchanges operating within a group. The highest proportion (2.22%) is observed on BME and the smallest on CEESEG (1.61%). The situation is reverse while relative capitalisation is concerned; it’s higher in stock exchanges operating individually. The highest value is observed at WSE (1.21%) and the smallest at BME (0.4%). Relatively bigger tourism companies are listed on stock exchanges operating individually.

The choice of capital market should reflect company’s needs and refer to both advantages and drawbacks of listing on individual or operating within a group stock exchanges. First ones are preferable for smaller companies due to smaller costs and lower listing requirements. Second ones are preferable for bigger companies with bigger capital needs. Also, they are desirable for companies operating internationally as this kind of listing improve the brand recognition.

5. Conclusion
Capital market in European Union undergoes a constant unification. Stock exchanges tend to operate within groups instead of operating alone. The example of tourism enterprises showed that companies have greater capital rising possibilities on the unified exchanges. Four main reasons for that are: greater market size, depth, liquidity and effectiveness. Also, bigger markets gather more investors, which leads to better company’s valuation. Importantly, whilst choosing a stock exchange for undertaking an IPO, tourism enterprises should consider their needs and potential costs. Smaller exchanges can be preferable for companies with little capital requirements due to smaller costs and lower listing requirements.

References:
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7. NASDAQ OMX, Primary Listing on NASDAQ OMX in Europe, Available at: http://www.nasdaqomx.com/listing/europe/primarylisting [access: 29.1.2014]

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<table>
<thead>
<tr>
<th></th>
<th>Relative capitalisation</th>
<th>Relative number of companies</th>
<th>Relative size</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>NASDAQ OMX</td>
<td>0.68%</td>
<td>2.07%</td>
</tr>
<tr>
<td>2</td>
<td>BME</td>
<td>0.40%</td>
<td>2.22%</td>
</tr>
<tr>
<td>3</td>
<td>CEESEG</td>
<td>0.66%</td>
<td>1.61%</td>
</tr>
<tr>
<td>4</td>
<td>WSE</td>
<td>1.21%</td>
<td>1.80%</td>
</tr>
</tbody>
</table>

Source: own development