CHALLENGES FACED IN MANAGEMENT OF AN INITIAL PUBLIC OFFER PROCESS

THE CASE OF COOPERATIVE BANK OF KENYA

By

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DECLARATION

I, the undersigned, declare that this is my original work and has not been submitted to any other college, institution or university other than the University of Nairobi for award of a degree

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This report has been submitted for examination with my approval as the appointed University supervisor

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DEDICATION

This report is dedicated to my loving parents Douglas and Lucy.

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ABSTRACT

This study set out to establish the challenges that Cooperative Bank encountered in ensuring a successful initial public offer. The objectives of the study were to establish the challenges that the IPO managers experienced in the IPO process and the strategies used to overcome them. The data collection was carried out by use of open ended questionnaire and triangulated by content analysis of documents related to the study. Data collected was analysed by use of qualitative and quantitative methods. The presentation used both visual charts and narrative form. The researcher gave recommendations from the findings of the data analysed. The study found that the IPO managers experienced various challenges while managing the process which included logistic, economic, financial and strategic. The IPO managers applied various strategies to overcome the challenges which included establishment of an IPO centre to coordinate activities, putting together an IPO Steering Committee, centralisation of IPO operations among others. The study recommends that future IPO put together an expert team to oversee the offer well before the issue. Pre-IPO procedures like valuation, audit and accounting should be thoroughly dealt with before issue. It's hoped that future IPO managers will also benefit by planning adequately around the challenges documented. Further the market regulators and brokers will find the findings of this investigation useful in informing their policies and the clients while the study intends to provoke further research in this area for academicians.

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ABBREVIATIONS AND ACRONYMS

AGM ....Annual General Meeting

CDSC ....Central Depository & Settlement Corporation

CEO ....Chief Executive Officer

CMA ....Capital Market Authority

EMH ....Efficiency Market Hypothesis

FOSAs ....Front Office Service Activities

IAS ....International Accounting Standard

IFRS ....International Financial Reporting Standards

IPO ....Initial Public Offer

IT ....Information Technology

KCB ....Kenya Commercial Bank

NSE ....Nairobi Stock Exchange

ROI ....Return On Investment

SACCOs ....Savings And Credit Cooperative Societies

SEC ....Securities and Exchange Commission

US ....United States

USD ....United States Dollars

CHAPTER ONE
INTRODUCTION

1.1 Back ground of the Study

According to Braudal, F (1993), the History of stocks trading can be traced way back to the 11th century. He argues that in that century in Cairo, the Jewish and Muslim merchants already had the notion of trade association and had set up all the methods of credit as well as payments.

Trading of shares ownership may however have begun as early as 9000 BC to 8000 BC, at which time tokens, which were made out of clay, were used for accounting and financial purposes www.antiquestocks.com. However the website also contends that as writing hadn't been invented at that time, there is no way to confirm whether or not 'shares' of ownership existed

From the foregoing it emerges that the History of stocks exchange is rather blurry. Modern concept of stock exchange may have began as an informal gathering of local businessmen The London Stock Exchange is identified as the oldest Major stock exchange having been established in 1698 where the market founder John Castaing began to organize the market via a simple list of stock and commodity prices. The New York stock exchange is the second oldest having been established in 1872. Then, came Bombay exchange in 1875 and the American Stock exchange in 1849 www.money-zine.com

1.1.1 Business Transformation

In order to survive Burns, B. (2004), a proponent of continuous transformation model of change argues that organizations must develop the ability to change themselves continuously in a fundamental manner. Many organizations achieve this by adopting relevant techniques that fit prevailing circumstances and those that align to their strategic goals.

Arkebuer, J. (1998) says that one way an organization can achieve this is by expansion. This always requires an infusion of capital which an organization can achieve through various ventures including mergers, acquisition and initial public offer. Initial public offer involves changing ownership by selling some or all of its shares to other investors through; listing in public, rights issue or merger.

Outperforming companies usually go public to finance their growth strategy and use their proceeds to fund acquisitions or market growth (Ernst and Young: 2008). The process of listing is long and involving. Issuing firms undergo changes in ownership structure and governance mechanisms as well as opening up to market monitoring and pressure to meet analyst expectations. The process also involves good teamwork and close cooperation of all team members involved in the project.

Once an organization has decided to undertake an advanced project, building the initial momentum can be difficult. The number of people involved in the project will grow quickly and as a result it becomes increasingly difficult to make progress (Allan, 2004)

1.1.2 The History of Cooperative Bank of Kenya

According to Ouma, (1987) the Government of Kenya in the early 1960's identified the co operative movement sector as a means to bring Kenyans together in order to achieve a critical mass of savings and investments. At the time the banking sector was dominated by Multinationals which were reluctant to lend to indigenous institutions. The Government considered the idea of setting up a co-operative bank to serve the Co-operative movement (Ouma, 1987)

According to the Cooperative Bank IPO prospectus, (2008) The Co-operative Bank of Kenya Limited was registered as a co-operative society on the 19th June 1965. It did not however commence operations as it was not licensed to carry on business under the Banking Act. In this status, it could not fulfil the main objective for its establishment, which was to mobilize financial resources and provide banking services to the co-operative movement. The Bank applied for a banking license to operate under the Banking Act, which was subsequently granted in 1968. The unique nature of the Bank as outlined in its primary objectives set it apart from the other Banks in the country (Ouma, 1987).

The Cooperative Bank IPO Prospectus further informs that the bank was formed at the time with a modest capital base of Kshs.255, 000 which was supplemented by an interest free government loan of 214, 000/- repayable over 10 years Cooperative Bank IPO Prospectus, (2008). The initial board comprised a 50/50 representation of the co-operative movement and Government respectively. The loan was fully repaid and the Bank became a private bank The Bank was unique through its adoption of a democratic means of governance. Its Board of Directors were elected by the members of the co-operative movement.

The primary objectives of the formation were to mobilize funds for loans aside from the general banking business as well as to provide financial assistance to Cooperative societies (Ouma, 1987). The focus of the Bank was to empower the co-operative movement to transform the lives of Kenyans. The growth of Kenya through the decades of 1960s to the 1980s was attributable to the success of the Bank in supporting the co-operative movement in its phenomenal growth (Cooperative Bank IPO prospectus, 2008)

In line with industry developments and the need to continue being relevant to the Kenyan people, the bank in 1994 converted to become a fully-fledged commercial bank offering a complete range of financial services beyond the captive Co-operative sector to include personal, corporate and institutional customers.

By the time of issuing the IPO, the Bank had remained committed to its founding objective, which was to serve the Co-operative Movement and had undertaken a number of financial deepening initiatives in this sector key among them being supporting the over 5000 SACCOs to establish financial units at the primary level. The financial units also known as Front Office Service Activities (FOSAs) have been a key development in the Co-operative Movement transforming their financial capacities as key mediums of financial access especially to the rural financing sector (Anyanzwa, J. 2008).

1.1.3. Ownership structure

The Co-operative Bank of Kenya Limited as a co-operative society had over the past 40 years been issuing shares to Cooperative societies, individual members of co-operative societies and management at the nominal value of Kshs.100 per share. The shares were classified into class A under Cooperative movement and Class B under individual members (Cooperative Bank IPO prospectus: 2008). That was prior to a split in year 2008 of every 1 share to 100 shares in accordance with the Co-operative Societies Act.

At a Special General Meeting of the bank held on 27th June 2008 the shareholders approved the restructuring of the Bank into a public limited liability company to meet the requirements for listing under the Capital Markets Authority Regulations, under a structure wherein the co-operative based class A membership of the bank would be held as a block under Co op holdings Co-operative Society Limited who would be the majority strategic investor in the new Company with a block controlling shareholding (Anyanzwa J, 2008)

In order to comply with the eligibility criteria for listing in the main market segment under the Capital Markets (Securities; Public Offers, Listings and Disclosures) Regulations 2002 a public limited liability company was incorporated under the name "The Co-operative Bank of Kenya Limited" and licensed as a bank under the Banking Act

The Cooperative Bank IPO Prospectus (2008) also highlights that at the same meeting, the shareholders of the bank approved a Transfer Agreement whereby the entire business, assets and liabilities of the bank would be transferred to the company subject to all regulatory approvals being obtained.

In the proposed public offering, all Offer Shares would be issued at the same price to co-operative societies, individual members of co-operative societies, management and the public

1.1.4. Transformational Challenges

As Cooperative Bank sought to issue its IPO various challenges arose. It sought to create dual ownership of the company's shares i.e. a unique share ownership structure to avoid being invaded by outsiders who do not fit in the objective of the bank that is to provide financial facilities to Cooperative societies (Cooperative Bank IPO Prospectus, 2008)

To achieve this, the bank planned to create a dual ownership structure with two categories of shares class A and B, which is not currently under the CMA regulations http://market.nairobi.com. In this structure, class A shareholder would exclusively be member Cooperative societies with rights to vote during AGM's. On the other hand, class B shareholder would include any other shareholders who will not have voting rights.

There was also the problem of timing the IPO appropriately. The likely IPO dates and pricing would be greatly affected by the decreased activity at the NSE. At the time the just ended Safaricom IPO, the KCB and Housing Finance rights issues had taken a huge chunk of investors' monies at the NSE (Nairobi Star, June 2008). More pressure was likely to come from the bearish trend in the equity market that has seen the market hit a three years low and still falling www.nation.co.ke. Investors had also been grossly disappointed by the poor performance of the Safaricom IPO shares.

The year 2008, was a significant year in Kenya's History. Politically the year had begun with Post election violence occasioned by the disputed 2007 General elections which had caused a negatively affected the business environment.

Globally, the economic meltdown that had begun a few years earlier was beginning to adversely affect financial institutions with the US Federal Government cutting benchmark interest rates to ease credit crunch in January

By September the same year Banks had tightened their lending and credit standards further. In the same month one bank was closed in US while Lehman Brothers filed for bankruptcy.

In Kenya the months leading to Cooperative Bank IPO had experienced declining NSE market capitalization which fell from over 1230 points in June to slightly above 764 points in October representing a decline of 37.8 %.(Kilonzo, S. 2008).

In the same period the net foreign cash flow rose from -121 million shillings in July to 879 million in October - an increase of 726% (Kilonzo, S. 2008).

Gloomy economic forecasts had resulted in job cuts among Kenyan industries. Many companies were complaining of reduced consumer demand coupled with higher energy prices. The government also introduced cuts in electricity and water supplies adding to worsening of the country's economic situation.

Economic uncertainties, mostly in the United States, also greatly affected the flow of remittances by Kenyans living overseas. Quite a number of them had already lost their jobs. Unlike previous share offerings, Co-op Bank's IPO therefore was unlikely to attract much interest from the Diaspora.

According to the Nairobi Star June (2008), the fiasco that was the Safaricom IPO had tarnished the reputation of the Nairobi Stock Exchange. Apparently, planners at the stock exchange, Capital Markets Authority and the Central Depository had greatly under estimated the logistics of having so many shares introduced at once. Safaricom shares, by themselves, currently constitute almost a third of all shares at the Nairobi Stock Exchange. Confidence on the Market Authority's capacity to oversee the second biggest IPO in Kenya's History was therefore on the decline.

1.2 Background of the problem

In spite of consumer inflation driven by rising oil and food prices, subdued investor confidence and gloomy economic forecasts, the Co-operative Bank decided to go ahead with its initial public offering (IPO) at the Nairobi Stock Exchange.

There were fears that the IPO would be undersubscribed due to investor disappointment caused by the near-fiasco of the Safaricom IPO earlier in the year (Wahome P, 2008). The IPO's lead sponsoring broker had warned against the venture at a time of worldwide economic uncertainty and inflation. He had called for the IPO to be postponed to the following year (Nairobi Chronicle, October 2008).

Gloomy economic forecasts had resulted in massive job cuts among Kenyan industries. Companies were complaining of reduced consumer demand coupled with higher energy prices. Cuts in electricity and water supplies had added to a worsening of the country's economic situation. The Cooperative Bank IPO therefore had all the making of failing.

1.3 Statement of the Problem

This research will focus on the challenges that faced the Cooperative Bank IPO and the success factors employed by the IPO managers to facilitate a successful offering. This area of study has previously been investigated by (Nyaga, 2008) who researched on strategic challenges faced by corporate firms.

The proposed research differs significantly from previous investigations in the area since while it focuses on the IPO process itself previous investigations have tended to focus on the IPO under pricing. Examples includes; Ndatimana, (2008); Simiyu, (2008), Gitundu, (2007) and Leshore (2008) who all surveyed in the same area but focused more on the Post IPO under pricing.

1.4 Purpose

This study aimed at exploring the challenges that Cooperative Bank IPO stakeholders experienced in the issue and the strategies used to ensure success.

1.5 Objectives of Study

The objectives of this study were to;

1. Establish the Strategic challenges that faced the Bank in the initial public offer process.
2. Examine the Economic challenges that the IPO team leaders encountered while planning the offer.
3. Establish the Financial challenges that the Banks IPO faced
4. Determine logistical challenges that the IPO planners had to overcome to ensure successful offer.
5. Establish the strategies the IPO Managers used to overcome the above challenges

1.6 Research Questions

The research questions guiding this study were;

1. What Strategic challenges did Cooperative Bank face in the crucial Initial Public Offer?

2. What Economic challenges did the IPO Management team face in preparing for the IPO?

3. What Financial challenges did the Bank face in the IPO?

4. What Logistical challenges did the Bank face in carrying out the IPO process?

5. Which Strategies did the IPO managers employ to overcome the challenges faced?

1.7 Significance of Study

To brokers and underwriters

Every Initial public offering involves brokers and underwriters. As this study aims at examining the challenges for an IPO, it will serve as a reference point for such future offerings especially to these critical facilitators. It will serve to inform the likely loopholes and pitfalls to be avoided.

To regulatory authority

The Capital Market Authority is the chief regulator for Securities market. It plays a significant role in facilitating the initial listing. Its role was therefore critical to the success of Cooperative Bank IPO. This study will play to critique the Body's role and serve as a spring board for more investigations into its central role in the stocks exchange.

To Academic community

Many studies have been carried out on the initial public offering. However with Kenya's securities market being a developing market there is need for more academic inquisition into the IPO process since most studies carried have focused on the IPO pricing.

To Project managers

An initial Public Offer is by all definitions a project right from initiation to completion. Every [illegible] requires meticulous planning, all tasks defined, necessary resources availed and all stakeholders properly facilitated to ensure smooth flow of activities. It therefore requires proper project management skills. This investigation will therefore serve to inform on areas that might require specific intervention of Project managers.

To Investors

In his Budget speech of year 2009/2010, the minister for finance highlighted that the Government will continue with it's privatisation programme and cede control of most of its key parastatals to the public. Equally more and more firms will seek to raise capital through sale of shares to the public hence potential investors will require up to date information on the whole IPO process to enrich their decision-making. This investigation hopes to bridge that knowledge gap and therefore contribute to informed investment decision by the larger public. It will also focus on key challenge areas that investors can gauge successful companies on.

1.8 Delimitation of Study

Initial public offers in Kenya receive extensive coverage and in-depth analysis in the months leading to and following the issue. This research will benefit immensely from this information and the goodwill expressed by the Bank's management in providing relevant information. The study has also assumed a case study design which means it will rely a lot on document review and in-depth interviews.

1.9 Limitation of Study.

The success of this study is heavily reliant on availability and willingness of Cooperative Bank IPO managers to provide the relevant information. Some of them may have since moved on to other career areas. The short time available for the survey may also not allow comprehensive review of the documents. The study will however use triangulation method to supplement.

1.10 Assumptions of Study.

This study assumes that Cooperative Bank represents a typical firm looking for Initial Public Offer to raise additional capital. The study also assumes that firms willing to carry out an Initial Public Offer will experience similar same social-economic environment as the one experienced by Cooperative Bank at the time of its IPO which may not be the case as social-economic environments are not static.

It is assumed that those responding to data collection instruments will answer the questions truthfully and completely and that the said instrument will validly measure the parameters expected

1.11 Definition of Significant Terms

Initial Public Offer – Refers to the first sale of a company's share to the public

Going Public - Refers to the process of selling a private company's shares to the public.

Cooperative Bank– Refers to the Cooperative Bank of Kenya

Challenges - Refers to the factors that could have delayed or inhibited the Initial Public Offer process

Process – Refers to the range of activities associated with the initial offer right from planning to the actual sale in the Stock Market

Security Market – Refers to a market where Individuals/Companies/Government buy and/or sell their share ownership in listed companies

Stakeholders – Parties with interest in the sale of a Company's shares to the Public. These includes stockbrokers, Capital Market Authority, Nairobi Stock Exchange, Government of Kenya, Potential buyers, other banks, transaction advisors, lawyers, accountants among others

Regulatory Authorities – Bodies that are empowered to control activities related to buying and selling of shares in Kenya. In this case Capital Market Authority and Nairobi Stock Exchange.

1.12 Summary

This chapter discusses the challenges that Cooperative bank's IPO managers faced in the preparation of the IPO. The banks IPO was issued at a time of global economic meltdown that led to increased pessimism on the success of the IPO by most market players. The chapter discusses the History of Cooperative and its ownership structure. Further the objectives of the study are highlighted and the research questions that will guide the interview.

The purpose of the study was to identify the challenges that the Bank faced in issuing the IPO. The significance of study to the brokers and regulators; regulatory authorities; potential investors; academicians and Project managers have been well discussed. The chapter also highlights the definition of significant terms at the end

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

An initial public offering (IPO) is the process through which a privately held company issues shares of stock to the public for the first time Draho, J. (2004). Also known as "going public," an IPO transforms a small business from a privately owned and operated entity into one that is owned by public stockholders www.google.com

2.1. Initial Public Offer

An IPO is a significant stage in the growth of many small businesses, as it provides them with access to the public capital market and also increases their credibility and exposure. Becoming a public entity involves significant changes for a small business, though, including a loss of flexibility and control for management. In many cases, however, an IPO may be the only means left of financing growth and expansion. The decision to go public is sometimes influenced by venture capitalists or founders who wish to cash in on their early investment.

Overall, going public is a complex decision that requires careful consideration and planning. Experts recommend that small business owners consider all the alternatives first (such as securing venture capital, forming a limited partnership or joint venture, or selling shares through private placement, self-underwriting, or a direct public offering), examine their current and future capital needs, and be aware of how an IPO will affect the availability of future financing.

In the US the ideal candidate for an IPO is a small to medium-sized company in an emerging industry, with annual revenues of at least USD10 million and a profit margin of over 10 percent of revenues. It is also important that the company have a stable management group, growth of at least 10 percent annually, and capitalization featuring no more than 25 percent debt. Companies that meet these basic criteria still need to time their IPO carefully in order to gain the maximum benefits. (Lindsey, 1989)

Lindsey suggested going public when the stock markets are receptive to new offerings, the industry is growing rapidly, and the company needs access to more capital and public recognition to support its strategies for expansion and growth.

However this may not always be the case as some organizations have experienced successful initial offering in times of depressed economic growth, high inflation and as was the case with Kenya Airways and Cooperative Bank.

2.3 Reasons firms Issue IPO

According to Lindsey, the primary advantage a business stands to gain through an initial public stock offering is access to capital. Allen and Gale, (1999) Suggests that in addition, the capital does not have to be repaid and does not involve an interest charge. This view is supported by (Pagano et al., 1998). However this gain is not a preserve of small business as Lindsey seems to suggest. Large corporate also seek capital to fund growth and expansion as well as Research. Google, one of the largest internet search engine sold its shares to the public to fund its expansion. The only reward that IPO investors seek is an appreciation of their investment and possibly dividends www.referenceforbusiness.com

As demonstrated by Krispy Kreme, a US company, an initial public offer can be used as a source of cheap capital. The company was used to financing its expansion strategy with the aid of long-term debt. However it's April 2000 IPO raised enough capital to completely pay off the long-term outstanding debt and witnessed rapid growth thereafter (Thompson et al.2007)

Besides the immediate infusion of capital provided by an IPO, a business that goes public may also find it easier to obtain capital for future needs through new stock offerings or public debt offerings. Google did issue new offerings after it's successful IPO in 2005 (Burns, B. 2004) The motivation for new finance includes prospects for growth by acquisition, funds for organic expansion and refinancing of current borrowings (Roell, 1996).

A related advantage of an IPO is that it provides the business's founders and venture capitalists with an opportunity to cash out on their early investment. Those shares of equity can be sold as part of the IPO, in a special offering, or on the open market some time after the IPO. Lindsey (1989) does however point out that it is important to avoid the perception that the owners are seeking to bail out of a sinking ship, or the IPO is unlikely to be a success.

Yet another reason firms opt to go public is increased public awareness, which may lead to new opportunities and new customers as part of the IPO process, information about the company is printed in newspapers across the country. The excitement surrounding an IPO may also generate increased attention in the business press. However while investopedia seems to suggest that increased attention may lead to increased sales, this may not always be the case. IPOs have provided opportunity for members of the public to invest while enabling Issuing firms to raise capital

Going public may to the larger public be seen as opening up to public scrutiny thus a sign of confidence in the business by market players. Indeed Stoughton et al, (2001) sees public listing as not only providing an initial certification by financial market professionals but also a longer time price signal to suppliers, work force and customers to the business.

There is increased public awareness of the company because IPOs often generate publicity thereby making their products known to a new group of potential customers. A company receiving go-ahead to list its shares in the securities market must go through some stringent criteria related to ensure they are stable hence most firms receives enhanced credibility with its suppliers, customers, and lenders, which may lead to improved credit terms.

Holmstrom et al (1993) and Bolton et al (1998) suggest that by going public companies subject themselves to monitoring by outsiders like; investment banks, auditors, analysts and investors, activities which might enhance the value of the firm.

In Kenya the Capital Market Authority has specific requirements that listing firms must meet. These includes minimum authorized issued and paid-up capital, minimum net capital, issuer to have published audited financial reports as per international accounting standards among others Dinho, J (2004). The managerial discipline that comes with the listing requirement can be a motivating factor to issue initial public (Homström and Tirole, 1993; Stoughton et al., 2001)

A firm getting a go ahead from the authority may therefore be seen as having passed credibility test. Public offering helps a company gain prestige by creating a perception of stability which is important in recruiting and retaining key employees Nabucha, (2008)

Yet another advantage of going public involves the ability to use stock in creative incentive packages for management and employees. Offering shares of stock and stock options as part of compensation may enable a small business to attract better management talent, and to provide them with an incentive to perform well. Listing motivates management and employees. Roell, (2006) not only views it as a natural response to the company's signal for growth but also sees the share participation schemes as a motivator for senior management and employees. Employees who become part-owners through a stock plan may be motivated by sharing in the company's success.

Finally, an initial public offering provides a public valuation of a small business. This means that it will be easier for the company to enter into mergers and acquisitions, because it can offer stock rather than cash.

2.4 Disadvantages of Going Public

One of the most important changes a company has to go through after listing in public is the need for added disclosure for investor (investopedia). Homström and Tirole (1993) observes that in US which has a much more developed security market compared to Kenya, Public companies are regulated by the Securities Exchange Act of 1934 which makes it mandatory for periodic financial reporting, which may be difficult for newer public companies. They must also meet other rules and regulations that are monitored by the Securities and Exchange Commission (SEC).More importantly, especially for smaller companies, is the cost of complying with regulatory requirements can be very high. Additional costs include the generation of financial reporting documents, audit fees, investor relation departments and accounting oversight committees (Nyaga, 2009).

In Kenya CMA requires a listed company to disclose information regarding, business strategy, market, profit margin, future plans, financial performance and top level executives remuneration on a regular basis www.cma.or.ke. Much of the information which may not have been open to the public before listing may be used by a business competition to counter the newly listed company in the market.

Additionally the companies incurs continuing costs for periodic reports and proxy statements filed with the regulatory agencies and distributed to shareholders (Idaho, 2001).listing also results to increased operational cost as the company's management and accounting systems must be upgraded regularly. This view is corroborated (Kimura, 1999) that publicly quoted banks have had generally higher disclosure requirements because of the listing rules of the Nairobi Stock Exchange. For listed Banks, Central Bank regulation require that Banks publish their audited balance sheets and detailed income statements not later than March 31st of the year following the end of the latest financial year.

Public companies are also faced with the added pressure of the market which may cause them to focus more on short-term results rather than long-term growth. The actions of the company's management also become increasingly scrutinized as investors constantly look for rising profits. It's possible that this may lead management to perform somewhat questionable practices in order to boost earnings and satisfy short term investors (Idaho 2004)

Despite such expense, it is always possible that an unforeseen problem will derail the IPO before the sale of stock takes place. Even when the sale does take place, most underwriters offer IPO shares at a discounted price in order to ensure an upward movement in the stock during the period immediately following the offering. The effect of this discount is to transfer wealth from the initial investors to new shareholders.

Other than cost a lot of time is spent preparing for the IPO and ensuring the success of the offer. This may lead to derailment of other strategic initiatives as the whole organization strives to make the transformation a success. (Nyaga, 2009) found that the most significant challenge facing firm going through initial public offer is diversion of management time. He further argued that the IPO process is intense and requires total management focus and attention. This concurs with the views of (Idaho, 2004) that an IPO issuer might issue proprietary information that might weaken it competitively.

Going public involves a significant loss of control by management over day-to-day operations through dilution of the holdings of the company's original owners (Reference for business) Large shareholders may seek representation on the board and a say in how the company is run. If enough shareholders become disgruntled with the company's stock value or future plans, they can stage a takeover and oust management. The dilution of ownership also reduces management's flexibility. It is not possible to make decisions as quickly and efficiently when the board must approve all decisions.

From the foregoing it's evident that going public has significant disadvantages and firms deciding whether or not to go public, companies must evaluate all of the potential advantages and disadvantages that will arise. This usually will happen during the underwriting process as the company works with an investment bank to weigh the pros and cons of a public offering and determine if it is in the best interest of the company.

2.5 How companies make IPOs

A company seeking listing for the first time on the stock exchange offers part of its securities to be subscribed by the public, as part of the listing exercise. When a major shareholder (e.g. the government) is the one off-loading shares the shareholder (the vendor), not the company retains the proceeds of the offering. This offer is called an Initial Public Offering (IPO)

The term only refers to the first public issuance of a company's shares. If a company later sells newly issued shares (again) to the market, it is called a "follow-on" offering Ochieng F. (2008)

Any company wishing to undertake an IPO in Kenya would have to get the approval from the Capital Markets Authority before the IPO can be carried out. The Authority (CMA), in considering an IPO proposal, takes into account compliance with the legal and regulatory framework by the company undertaking the IPO.

Once approved, the company is required to issue a prospectus that tells about the company; what it does, how it has fared and how it expects to perform in the future. The Capital Markets Act requires a certain level of disclosure. Under this Act the CMA is required to ensure that the company offering the shares provides all the necessary information for investors to make informed investment decisions.

2.6 IPO Underwriting

In securities, underwriting refers to the purchase of securities for resale to the public, either directly or through dealers. This is a way of selling a newly issued security, such as stocks or bonds, to investors.

According to Rini, B. and Kamlet, A(1995), When a company whose stock is not publicly traded wants to offer that stock to the general public, it usually asks an "underwriter" to help it do this work. The underwriter is almost always an investment banking company, and the underwriter may put together a syndicate of several investment banking companies and brokers. The underwriter agrees to pay the issuer a certain price for a minimum number of shares, and then must resell those shares to buyers, often clients of the underwriting firm or its commercial brokerage cousin. Each member of the syndicate will agree to resell a certain number of shares. The underwriters charge a fee for their services.

2.7 IPO process in Kenya

In most countries the process of listing is regulated by a central body. The SEC in United States is the regulatory body for all securities. IPO's in Kenya are regulated under the Capital Markets Act, Cap 485A (Capital Markets Securities, Public Offers, Listing and Disclosures) regulations.

The Capital Market Authority is the body that regulates capital market activities. The authority was founded in 1989 by the Government of Kenya in as part of a bigger need to design and implement policy reforms to foster sustainable economic development with an efficient and stable financial system. The Authority licensees all the market players including Stockbrokers, Investment banks the central Depository and settlement corporation and the Nairobi Stock Exchange.

2.8 CMA eligibility criteria

Firms aiming at listing their shares in the Nairobi Stock Exchange must meet the following requirements,

1. Issuer shall have a minimum authorized issued and fully paid-up share capital of KSh. 50 million.

2. Net assets immediately before the offering of shares should note be less than Ksh. 100 million.

3. Issuer to have published audited financial statements complying with International Accounting Standards (IAS) for an accounting period ending on a date not more than three months to the proposed date of offer for issuers whose securities are not listed at the securities exchange and six months for issuers whose securities are listed at the securities exchange.

4. The issuer must have declared positive profits after tax attributable to shareholders in at least three of the last five years completed accounting periods to the date of the offer

Upon listing however, the all activities related to buying and selling of securities is regulated by the NSE.

2.9 Role of Nairobi Stock Exchange

In Kenya dealings in securities (bonds and shares) started in 1920's. At the time no formal market existed. The rules governing stock were by then very loose (Oloo, 2000).

The NSE as it is presently known was founded in 1954 following deliberations amongst local Brokers. The aim was to enable trading of government securities between Nairobi and London Stock Exchange which had helped to recommend rules and regulations of NSE (Oloo, 2000).

For a long time the NSE had for a long existed without any formal corporate status and was not subject to any form of regulation (Oyugi and Okelo, 1997). Concern had been expressed about the lack of transparency in the dealing which culminated in the formation of a regulatory and oversight body CMA. Over the years the government further moved to change the Stock Exchange body ownership structure from a private limited company to a one limited by guarantee. The listing process is a sequence of activities as highlighted in the flow chart below.

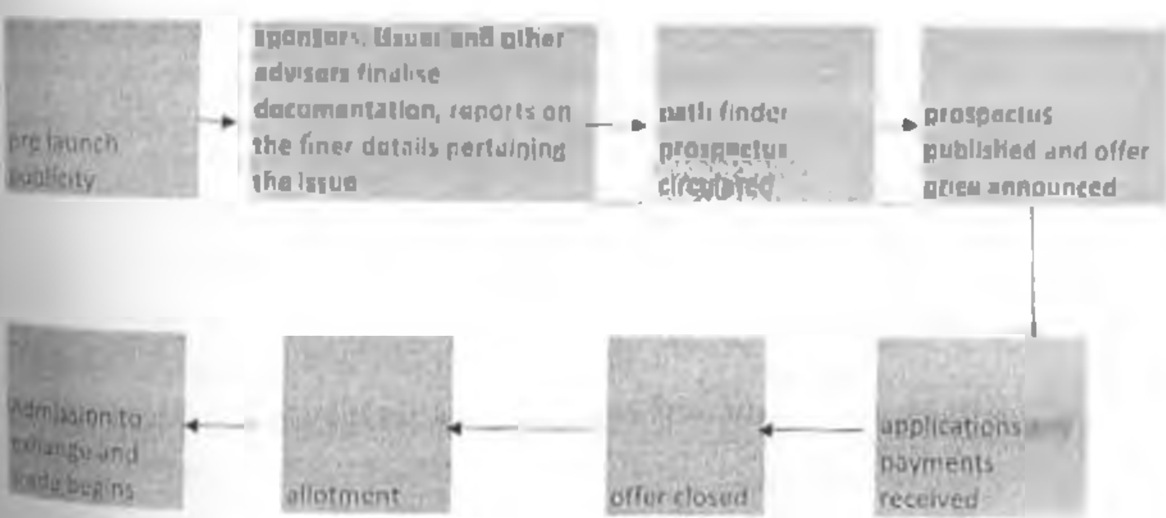

Figure 1 A Process Flow for Issuance of IPO at Nairobi Stock Exchange
Source: *Nairobi stock exchange (1997)*

2.10 Efficient market hypothesis

In finance, the efficient-market hypothesis (EMH) asserts that financial markets are "informationally efficient". The EMH holds one cannot consistently achieve returns in excess of average market returns on a risk-adjusted basis

According to Wikipedia, the efficient-market hypothesis was first expressed by Louis Bachelier, a French mathematician, in his 1900 dissertation, "The Theory of speculation". It emerged as a prominent theory in 1960s when it began circulation among economists. The theory was further developed by Professor Eugene Fama

There are three major versions of the hypothesis; weak, semi-strong and strong. Weak EMH claims that prices on traded assets like stocks, bonds, or properties already reflect all past publicly available information. Semi-strong EMH claims both that prices reflect all publicly available information and that prices instantly change to reflect new public information. Strong EMH additionally claims that prices instantly reflect even hidden or "insider" information. According to Fama, (1969) there is evidence for and against the weak and semi-strong EMHs, while there is powerful evidence against strong EMH.

2.10.1 Nairobi Stock Exchange Efficiency

Past studies on NSE have supported the weak form efficiency. Dickinson and Muragu (1994) studied data from the market and found evidence that small markets such as the NSE may provide empirical results consistent with weak-form efficiency.

2.11 Challenges in the IPO process

Executing a company strategy requires access to capital. One of the primary ways to access capital is to go public. Companies that have completed a successful initial public offering (IPO) know the process involves the complete transformation of the people, processes and culture of the organization from a private enterprise to a public one. According to (Murphy, 2003) Initial Public Offerings are the sale of a company's shares upon its first entering the public market. IPOs involve the shares of ownership or stocks of a corporation or business entity that are offered for sale to public investors who can either be institutional investors or individual investors and the purpose of the IPO is to raise capital.

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Usually, corporations that undertake an IPO do so with the intent of facilitating further growth and expansion as a way to increase revenues and return on investment (ROI). Such was the case with Google's IPO. Google reached a point in its growth cycle where it needed the capital to build-out its infrastructure further and have the capital available to finance acquisitions in order to more fully compete with Yahoo! and Microsoft.

In their global survey of top 10 IPO readiness challenges, Ernst and young found that 'successful companies treat IPO as a long-term transformational process which brings change to every aspect of the business, organization and corporate culture. The journey to public company status must prepare an organization not only for the defining moment of the IPO event, but also for a whole new phase of corporate life '(Ernst and Young, 2008)

There is not one specific way of undertaking an IPO process Each IPO has had, and will have, different overriding objectives and challenges (South Africa manual on IPO). Correctly identifying those objectives and managing the tensions created by the challenges, forms an integral element to the success of any IPO

2.11.1 Strategic Challenges

Going public is not for every company. The pitfalls are numerous and the stakes are high. Lack of adequate preparation and poor market timing can jeopardize an IPO. All the suggested reasons for going public exhibit some trade off between the benefits of being publicly traded and the associated costs (Benninga et al, 2003) It's important to understand the suitability of the IPO for the business, given a company's business model, growth potential and the stage of the company's life cycle.

As highlighted previously, there are numerous disadvantages of going public. Outperforming companies weigh the benefits of going public against the drawbacks, as well as against the company and shareholders' objectives. The possible benefits of going public are numerous, including: Improved financial condition, liquid currency, more capital to sustain growth, increased shareholder value and share price, incentives for management and employees through stock options, enhanced corporate image, a path to mergers and acquisitions, better future financing opportunities and the ability to benchmark operations against other public companies from the same industry

Successful executives explore potentially attractive alternatives to a public listing, before settling on the traditional IPO as the chosen route to monetization The goal is to achieve the optimal value for a company's current situation and future objectives Ernst & Young (2008). Compared with the public markets, the private capital markets may be a more realistic, feasible, lucrative and less costly vehicle for raising capital.

Increasingly, businesses keep their options open by grooming for more than one source of funding Burns B (2004). Alongside IPO preparation, a company's transaction options may include investment by a private equity firm, strategic joint ventures, alliances, private exchange and international listings or a combination of the various capital raising strategies.

It's important to understand the pros and cons of each exit route and its suitability for the company. Executives need to have a clear idea of what's involved, how long the process will take, what it's likely to cost and whether two or more routes need to be run in parallel. Ernst & Young advises a multi-track approach to reduce risk substantially without adding a great deal to the cost or time requirement because similar preparations are necessary whichever route is chosen.

By diversifying its approach, a company can significantly expand its strategic options and negotiating leverage. Thus, successful companies keep options open during the long preparation process, especially in an uncertain financial environment. The potential drawbacks of going public can include: loss of control and privacy, limits on management's freedom to act, the demands of periodic reporting, initial and ongoing expenses, the burden of dealing with shareholders' expectations and increased disclosure requirements (Homstrom and Tirole, 1993)

The process of going public is not entirely irreversible as firms still retain the options of delisting once listed. (Welch, 1999) reports that almost half (45.2%) the firms that went public in the period 1980–1994 in US are delisted, one way or another, within five years after the IPO. IPO manager should therefore explore together with the existing shareholders the possibility of de-listing the firm's shares. This can serve to inform the number of shares the firm plans to sell.

Effective IPO managers must ensure that the timing of the issue can guarantee a minimum return Those who treat the IPO as just a short-term financial transaction underestimate its far-reaching impact (Ernst & Young; 2010) Successful executives start to plan and make organizational changes at least a year before the IPO. Moreover, they treat the IPO event as just one defining milestone in a larger transformation process. Companies that underestimate the time that senior management has to spend on the process do pay a heavy price for such miscalculation. Most firms take up to 9 months to prepare for the issue (Nyaga, 2009). There must be a comprehensive business plan in place to guide the business through the IPO process.

Planning is critical. The first step in a successful IPO is a careful exercise in defining success. Burns B (2004). In Kenya a CMA expects an issuing firm to get at least 30% subscription rate to be eligible for listing. Successful firms should focus on 100% subscription rate

Then, with input from key stakeholders, executives create a comprehensive business plan and detailed timeline regarding the operational, financial and strategic initiatives necessary for the company to go public (Homstrom and Tirole, 1993). The business plan needs to be long term, including the 24 months before and after the IPO Such a business plan should provide a clear road map for the company of its future direction which may then be communicated to stakeholders Draho, J. (2004). (Ernst & Young, 2008) found out that market out performers implement critical changes early enough to allow for the changes to season in the organization

The business plan acts as a guide to the entire process providing timely returns for each crucial step. Ernst & Young argues that while a private company can function with an informal planning process, institutional investors expect a public company to have a compelling strategic plan. Investors focus not on a company's past history, but rather on its future direction. Thus, a convincing, well-thought out and well-documented corporate strategy is crucial Draho, J. (2004).

In the Global survey of 2008 for IPO out performers, Ernst & Young reported that over half of companies in our study found that developing and executing a compelling business strategy is the biggest pre-IPO readiness challenge. At the same time, 31% of their respondents said that strategic planning provided the greatest post-IPO benefit as it allowed their organizations to operate more efficiently.

2.11.2 Economic Challenges

Timing of an IPO is a very crucial factor in any successful offer. Lindsey, J. (1989) suggested going public when the stock markets are receptive to new offerings, the industry is growing rapidly, and the company needs access to more capital and public recognition to support its strategies for expansion and growth. The Bank IPO was executed at a time of subdued investor confidence, decreased activity at the NSE and gloomy economic forecasting. The timing according to market experts was therefore not right. There were fears that the issue would not meet the minimum subscription rate by CMA of 30%.

Some empirical regularity suggests that entrepreneurs indeed time their decisions to go public. For example, there are waves in IPOs, a phenomenon called "hot issue markets" (Ritter 1984). Moreover, these waves are often disproportionally populated with firms in particular industries.

Benninga et al (2005) investigated the "hot issue" phenomenon. They found out an existing cross-sectional correlation in profitability of firms as the possible explanation of the hot issue phenomena. One possible reason for the "hot" markets in IPOs is that firms, especially in certain industries, face better investment opportunities during some periods than in other times, so that IPOs merely allow for increased fund raising. Since changes in macroeconomic conditions simultaneously affect multiple industries and companies, firm profitability tends to be positively correlated. In particular, good economic circumstances positively affect the cash flows of many firms.

Firms go public when their cash flows are high, which means that when one firm finds it [illegible] to issue stock, so do other firms. Benninga et al (2008) found out that IPOs come in waves. Furthermore, since the correlation between the cash flows of firms within the same industry is likely to be greater than the cross-sectional correlation at large, our results are consistent with the industry concentration that characterizes waves in IPOs.

Finally, good economic conditions affect the cash flows of both publicly traded and privately held firms. Hence, the waves in IPOs, which occur when the cash flows of the issuing firms are high, happen when the cash flows of publicly traded firms are high as well. Thus, IPO waves coincide with times of relatively high share prices.

While it's best to go public in the most opportune market conditions possible, it is just as important to be fully prepared to operate as a public company (Welch, 1999). Rather than simply timing the market, successful managers take the full time needed for company preparations, so that they are ready to launch when market conditions are optimal.

From their survey, Ernst & Young indicates that the most common mistake of newly public companies is to hurry into their IPO just months before the IPO, and before their company is ready. Typically, the frequent rush to go public could be attributed to a pre-listed company's imminent need for capital, pressure from the advisors or board or the desire to capitalize on a limited window of opportunity in the midst of changing market conditions.

Unfortunately, these are frequently the same companies whose results decline soon after the IPO. Often, the more successful IPOs are launched by the more established and mature firms with proven track records and an established brand name Benninga et al (2008). The growth stage of a company can be an indicator of a company's stability and ability to consistently generate earnings. Companies that exceed overall market returns have usually implemented the more time-consuming critical changes a full 12 to 24 months prior to going public (e.g., strategic planning, building the team and establishing the internal control, financial and accounting systems)

Less time-consuming changes tend to be implemented later on in the process, usually in the last six months (e.g., public company board composition, the investor relations function and employee/executive compensation issues)

2.11.3 Financial Challenges

A primary purpose of most IPOs is to raise capital for growth. A firm aiming at raising capital through IPO faces a number of risks including insufficient proceeds raised by IPO process and exceeding budgeted cost (South Africa Manual of IPO). Arkebauer estimates the cost of going public in US as between USD 130,000 and 535,000 equivalent to KSH. 9.75 Million and 40.125 million while the same in Kenya is estimated at KSH 20 million (Nyaga, 2009). The major cost related to the process includes; legal, accounting, audit, printing, fees, underwriting and other operational costs on the part of the company. Benninga et al (2008) estimates average direct costs of being a publicly traded firm at about 10% of profits as of the IPO date.

This summary is based upon the following assumptions: the company is "clean", meaning the articles of incorporation, the bylaws, and the material contracts do not need to be revised or amended; the officers do not have securities laws violations, bankruptcies, or other issues in their past; there is a simple capital structure without multiple layers of securities and debt; the company's officers are available and cooperates to do much of the work, particularly in drafting the disclosure documents; the company's officers and shareholders are decisive and take advice and follow instructions readily and precisely; the company does not present abnormal business risks Benninga et al (2008). The cost is therefore bound to inflate in the absence of the above preparation structures.

From the above estimates, it is evident that the cost of going public is considerable hence the decision to issue an IPO must be a rational one. There is need therefore for the company's shareholders and IPO managers to comprehensively analyse the cost versus the benefits of issuing the IPO.

2.11.4 Logistic challenges

In the IPO process interpersonal relationships will have a significant effect on the IPO outcome. If the stakeholders have good relationships they will be able to form a cohesive team (IPO Reference manual South Africa)

[illegible] only should there be a good relationship among the stakeholders but it is imperative to ensure the team is competent. On the journey of transformation into a public company, [illegible] depends to a great extent on a coordinated effort by internal management and the [illegible]visory) team. In a survey of market outperformers globally Ernest and Young (2008) top [illegible] ranked a functioning internal team in advance of the IPO as the fourth most important [illegible] challenge for successful listing. This concurs with the findings of Nyaga (2009) who found lack of key personnel to execute the IPO ranking among the challenges experienced by firms listing.

As previously highlighted IPO issues requires considerable resources to execute. Other than the direct financial cost the material requirement and expertise assembly pose a significant challenge Benninga et al (2008).IPO readiness involves the acceptance and implementation of change — not just by executive management, but throughout every aspect of the business, organization and corporate culture. Successful managers show flexibility and willingness to implement change (e.g. in the composition of the board of directors, employee incentive compensation plans, financial and internal control systems and investor relations strategy)

There are risks associated with the IPO process which effective managers must strive to mitigate. These includes: insufficient personnel to undertake the IPO; experts not dedicating sufficient time to the IPO project; relevant IPO stakeholders not working as a team and lack of cooperation among the relevant departments in the issuing company (Ernst &Young, 2008)

From the onset, effective managers must be able to set a team that will dedicate their time to the project as successful transformation from a private to a public company depends to a great extent on a coordinated effort by internal management and the advisory team (Burns, B. 2004). In the case of market outperformers, the internal team is in place and functioning well in advance of the IPO. The top managers already have the experience and expertise to undertake the IPO and operate a public company during the road show and long after it's over. The outperforming companies develop the compensation structures which will help to retain and motivate key talent within the organization Draho, J. (2004)

Market outperformers also select experienced advisors, including underwriter, auditor, attorney and investor relations executives with whom they will work in close collaboration. These advisors help to prepare the business carefully, introduce the right investors, sell the company's story and, most significantly, put a value on the business that reflects its position and potential.

Before listing, an organization's financial, accounting, tax, operational and IT processes, systems and controls must be able to withstand the rigors and scrutiny of public company status.

Before going public, executives should have in place, the infrastructure (of people, systems, policies, and procedures), which will enable the production of quarterly and annual reports in compliance with regulations. Due to competing interests in the process from the three main actors-issuing firm, underwriters and investors, Draho, J. (2004) advises for IPO managers to have as precise goals for the project as possible. Currently, compliance of the infrastructure with local and foreign regulations is a major undertaking. As more countries around the world require IFRS for listed companies, differences between local and foreign regulations will diminish. However, it's still a significant endeavour for a company to change its local accounting standard to meet IFRS standards.

Past investigations show that a strong infrastructure should facilitate regulatory compliance, protect against risk exposure and provide guidance to meet or beat market expectations Draho, J. (2004). Furthermore, such an infrastructure will ensure business execution continues apace despite the focus on the IPO transaction. Pre-listed companies need to improve their budgeting and forecasting capabilities, enhance external financial reporting, put financial statements in order, prepare to comply with local securities law and consider potential IPO accounting and reporting issues. Companies may also require some corporate housekeeping (Burns, B. 2004). For instance, they need to consider whether the existing corporate, capital and management structures are appropriate for a public company and whether the transactions with owners and management have been properly documented.

2.12 Conceptual Framework

The conceptual framework below relates the Independent variables (challenges of managing an IPO) with Dependent variable (successful initial offer). The independent variables considered are; Economic, Strategic, Logistic and Financial challenges. The challenges highlighted have a direct influence on the success of the IPO. On the other hand the success of an offer can be gauged from the subscription rate. In Kenya the body governing public offers expects a minimum subscription rate of 30% hence firms with subscription rate above that rate can be deemed as successful. Additionally, when firms issue IPO to raise capital, achievement of the capital targeted can also be used as a benchmark for success.

In managing an IPO, managers also have to contend with factors beyond their control which may serve to facilitate the offer. This include; Industry environment, influence of competition and regulatory controls. Industry environment refers to performance of the specific industrial sector while level of competition from similar firms may also hinder or facilitate the offer. Regulatory control refers to the laid down structures by the relevant bodies to facilitate and guide the process.

In the framework, intervening variables that may hinder the successful offer are also considered. One of the variables is investor confidence which is well beyond the control of the IPO managers. The prevailing performance or projected outlook of the stock market at the time of issue has a direct influence on the successful offer.

CONCEPTUAL FRAMEWORK

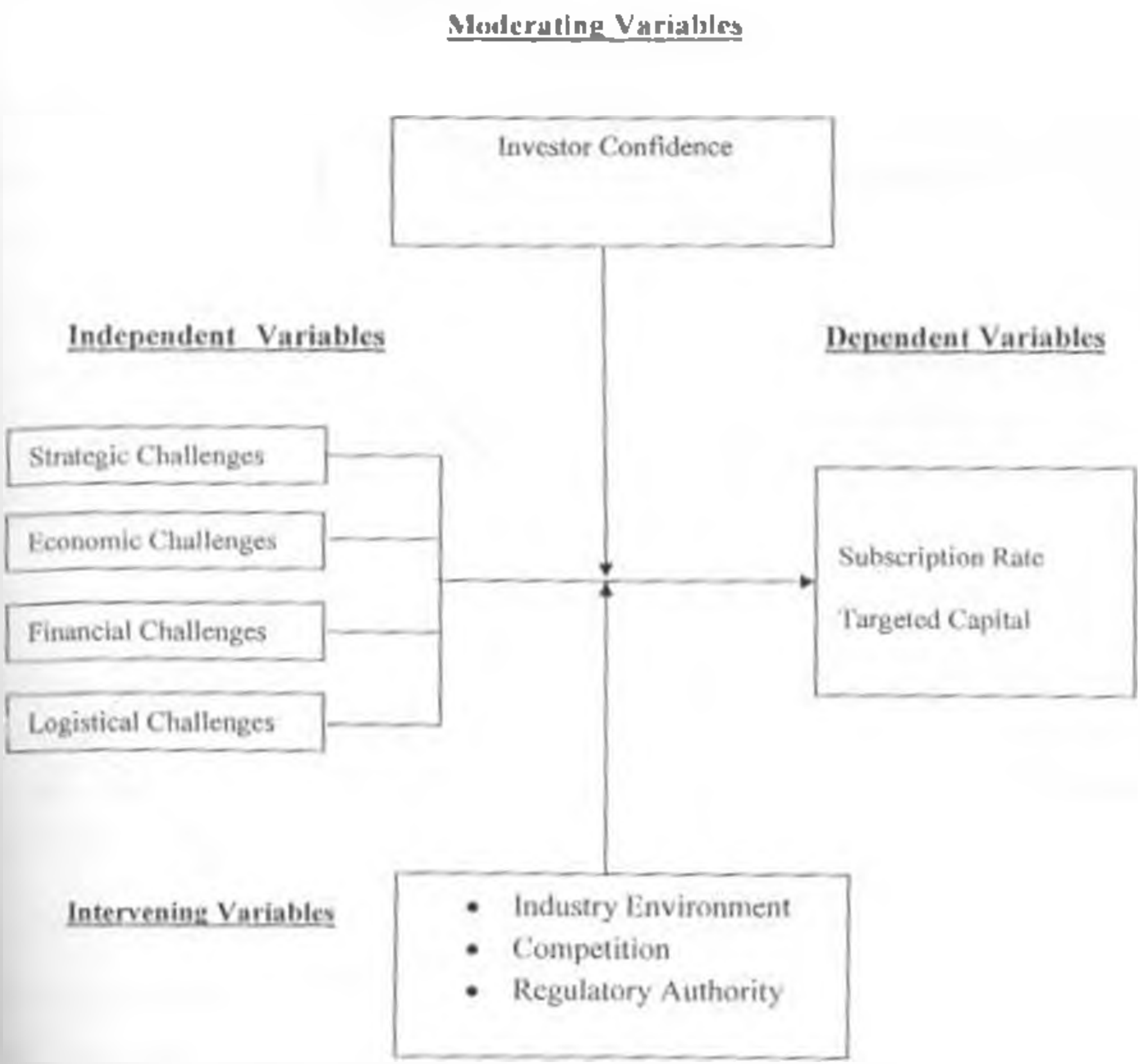

Figure 2 Challenges facing successful management of an initial public offer

CONCEPTUAL FRAMEWORK

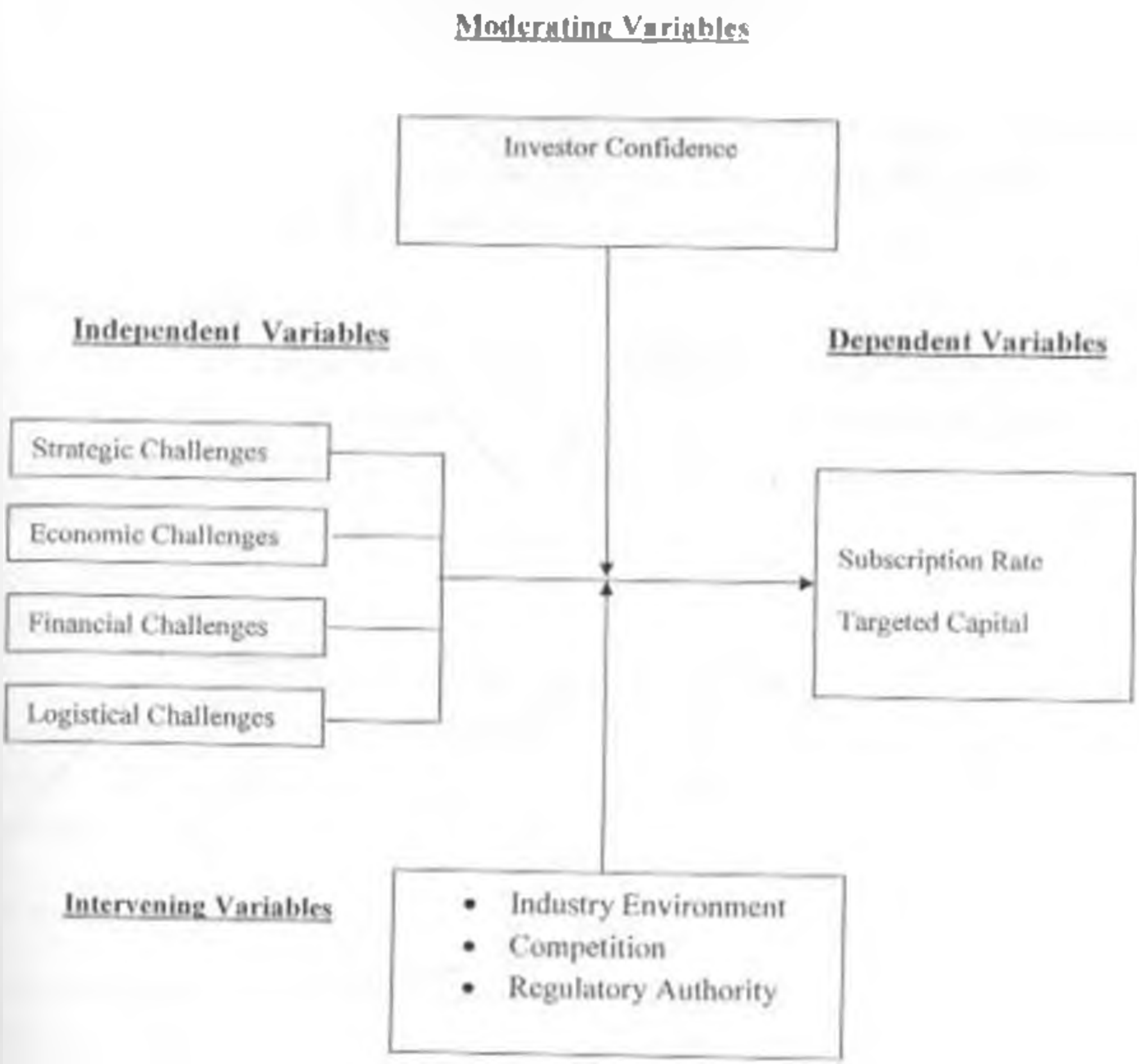

Figure 2 Challenges facing successful management of an initial public offer

CHAPTER THREE
RESEARCH METHODOLOGY

3.1 Introduction

This chapter deals with the procedures that were used in conducting the study. It is comprised of the area of study, research design, sampling procedures, validity and reliability, target population, data collection method, instruments and data analysis

3.2 Research Design

For the purpose of this study, a survey design was adopted. The design best suited this study since it allowed for an in-depth study of the successful listing process of the Initial Public Offer. It also focussed the study on gaining a rich understanding of the context of the research and the process that was followed

3.3 Target Population

The target population for this survey was Cooperative Bank IPO stakeholders and investors. The stakeholders considered here includes: the transaction advisors, transaction brokers, legal advisors, reporting accountants, public relations consultants and Marketing and advertising consultants

3.4 Sampling procedure

For the purposes of this survey quota and purposive sampling was adopted. The population of study was segmented into 2 major groups. These were the managers involved in IPO management from various stakeholders in different capacities and the prospective customers. This approach gives a holistic understanding of the process and includes perspectives of both the sellers and the buyers. A total of 23 questionnaires were filled by the IPO managers while 68 questionnaires were filled by retail and investors

Table 3.1 Sampling frame

Respondent segmentation	No. of Sampled Respondents
Cooperative Bank Steering Team	6
Lead Transaction Advisors	5
Lead Sponsoring Brokers	4
Legal Advisors	2
Reporting Accountants	2
Public Relations Consultants	3
Marketing and Advertising Consultants	3
Retail Investors	68
Total	**93**

Table 3.1 shows the sampling frame used

3.5 Data Collection

To achieve the purpose of this study both primary and secondary data collection methods were used. Primary data was collected from the IPO steering managers and investors through a semi structured questionnaire. These are the Bank's staff and other stakeholder's institutional staff who were involved in the IPO Steering committee on a day-to-day basis

To triangulate the primary data the researcher also reviewed brochures, prospectus, press releases and other related literature to the Cooperative Bank IPO.

3.6 Validity and Reliability

Pre-test method was used to check the validity and reliability of the questionnaire. The validity was tested by pre-administering the questioners to 5 master's students and 5 Cooperative Bank staff in middle management who filled them and made comments on their understanding of the questions and their relevance to the research area. The reliability of the instrument was tested by gauging the understanding the same question by the 10 respondents

3.7 Data Analysis

The survey approach adopted lead to qualitative data. For the purpose of analysis the researcher adopted a content analysis method. Inferences and meaning made from respondents and other information from reviewed materials formed the basis of conclusion. The research objectives were used to guide conclusions made.

The researcher used Ms Excel for purpose of analysing the data collected.

3.8 Summary

This chapter discusses the methodology to be adopted in this investigation. A survey design was adopted. This design suited the study because the focus was on gaining a rich understanding of the context of the research and the process that was followed.

This study identifies Cooperative Bank as the unit of analysis and focused on the challenges of an IPO process. The bank was selected as the unit of study being the last one to issue an IPO and also due to the harsh economic environment in which the IPO was carried out.

Quota and purposive sampling procedures were employed in this study. Data was collected by way of interview through open ended questionnaires. As a supplement to the primary data the researcher also reviewed brochures, prospectus, press releases and other related literature to the Cooperative Bank IPO.

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CHAPTER FOUR
DATA ANALYSIS, INTERPRETATION AND PRESENTATION

4.1 Introduction

This chapter discusses the analysis of the tabulated raw data obtained from the field through questionnaires. The data was presented using descriptive statistical tools such as frequency tables. Interpretation of the analysis was then done to obtain the answers to research questions.

The analyzed data was obtained from the sample population which comprised of the investors and IPO managers. Of the 25 IPO managers targeted 23 respondents were available for interview representing a 92% response rate while all the retail investors targeted were interviewed representing a 100% rate of response.

4.2 Respondent Profile

This research drew its respondent from Cooperative Bank IPO steering Committee, retail investors and other IPO stakeholders - Transaction Advisors, Transaction Brokers, Legal Advisors, Reporting Accountants, Public Relations, Market and Advertising Agents.

The retails respondents were picked on a convenience sampling of customers visiting several brokerage firms and Bank outlets. The researcher considered all the investors visiting the brokerage firms as eligible for responding to the questionnaires. Those who had invested with the Cooperative Bank shares were eventually singled out as respondents. The research considered both those who had already sold their Cooperative Bank shares (Short term investors) and those who were holding for the long term.

4.2.1 Age profile of Respondents

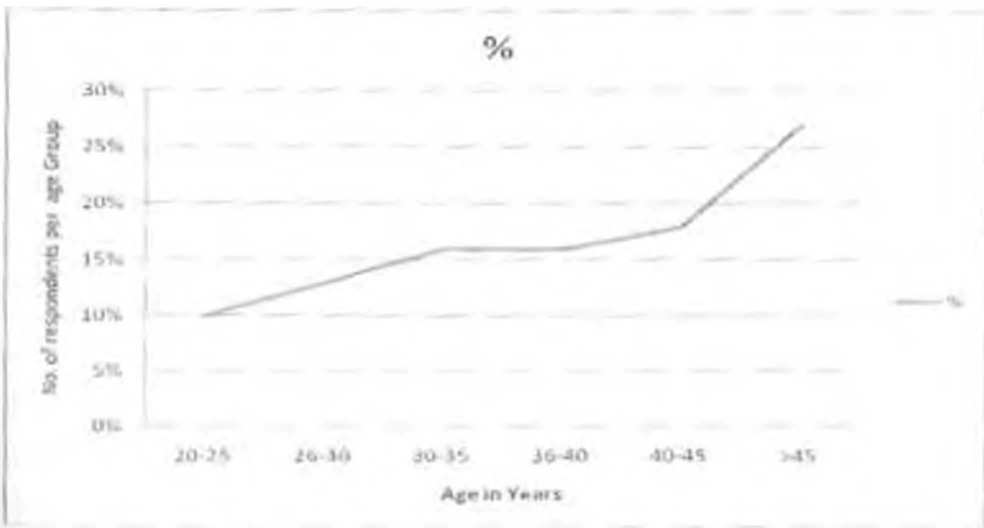
From an analysis of age profile the research found that majority of those interviewed were above the age of 45. This is the age group that has relatively more experience in investment and is more likely to invest in shares as a long term investment. Only 10% of those interviewed were in the age group 20-25. Majority of people at that age are either in college or have just graduated hence they have limited capital to invest. It's therefore evident that while investors above 45 years would form a sizable IPO target one cannot entirely ignore those between the ages 25-40 who form about 45% of investors. Key among the drive to invest at this age may be ambition, high income and higher risk appetite. IPO managers may have to give greater focus on this group as they are more likely to be opinion shapers for those below 25 years and the group above 45

From the data analyzed the number of those who invested in the Cooperative Bank IPO seems to increase with every age group. The managers must therefore find ways of appealing to all the groups considering the age variation. Figure 4.1 summarizes the change in number of investors against the change in Age group. The upward trend suggests that the number of those likely to invest in shares increases with age

Table 4.1 Summary of age of respondents interviewed.

Age of respondents in years	f	%
20-25	7	10
26-30	9	13
30-35	11	16
36-40	11	16
40-45	12	18
>45	17	27
Total	68	100

Figure 1 Change in number of investors against the change in Age



Summary of change in number of investors against the change in Age group

4.2 Occupation of Respondents

The researcher analyzed the data received to determine the different occupations of the respondents. From the findings 63 % of those interviewed were employed. The high number can be attributed to the ability of those employed to access loans from welfare or Sacco's which improves their purchasing power.

A number of employers also organizes funding arrangement with financiers for their staff to access loans at a lower cost hence ease of accessing capital. Only 25% of those interviewed were in self employment. The variation between those employed and those in self employment can be attributed to the poor performance of businesses at the time of employment limiting the surplus available to invest in stocks.

Table 4.2 Occupation of retails Investors

Occupation of Retail Investors	f	%
Students	6	9
Formal Employment	43	63
Self - employment	17	25
Retired	2	3
Total	**68**	**100**

4.3 Number of years invested in stock

The researcher also set upon to investigate the number of years the respondents had invested in stock. 35 % of the respondents indicated to have invested in stock for more than 10 years. It is instructive to note that 25 % of the respondents indicated to have invested in stocks for less than 3 year. This may be explained by the fact that the stock phenomena opened up after [illegible] with the Kengen IPO explaining why 65% of the respondents have invested for a period below 10 years.

Table 4.3 numbers of years respondents have invested in stock

Investment in stock (Years)	f	%
Less than 3 years	17	25
3-5 Years	14	21
5-10 years	13	19
Above 10 years	24	35
Total	**68**	**100**

4.4 Sources of IPO information

The researcher also set out to find out the sources of information for the IPO. The objective was to evaluate the communication challenges that faced the IPO since it's effectiveness can be related to information availability. The data below summarizes the main sources of information by the respondents.

Table 4.4 Sources of Information on Cooperative Bank IPO

Sources of Information on Cooperative Bank IPO for Retail Investors	f	%
Brokers	4	6
Friends Colleagues	16	24
News Item	7	10
Advertisements	41	60
Total	**68**	**100**

From the data collected, 60 % of those interviewed indicate to have received their information from the numerous adverts that the Bank's IPO marketing and advertising agents placed in the media. Ordinarily most investors are expected to refer to their brokers for advice. The findings from the research indicate otherwise. Only 6% of the retail investors relied on their brokers for advice. 25% of the interviewees relied on friends and colleagues as source of investing advice.

4.5 Strategic Challenges

The researcher also evaluated the Strategic challenges that the IPO faced. The retail investors were asked what challenges they faced while placing orders for the IPO shares. Table 4.3 below summarises their response.

Table 4.5 Challenges faced by investors while placing shares order

Strategic faced while placing Cooperative Bank shares order	f	%
Lack of proper information	17	25
Opening CDSC accounts	46	68
Lack of enough sales outlets	22	32
Few Cooperative Bank Branches	24	35
Fear of oversubscription	13	19
Long queues at the sales outlet	33	49

Majority of retail investors (68%) indicated that opening CDSC accounts was the main challenge they faced while 49% of them placed the long queues at the various sales outlets as a challenge. Only 25% of retail applicants said they had a challenge with information availability regarding the sales while 19% rated oversubscription as a challenge. 24 respondents representing 35% of all retail investors indicated that the few Cooperative Bank branches available posed a challenge to their placing of shares order or getting the relevant information.

In order to get an all rounded response the researcher asked the IPO steering Committee members whether they faced any significant strategic challenge in the running of the IPO process. All the 23 (100%) said they faced challenges. Result from the respondents was as follows.

Table 4.6 Number of Committee members who faced challenges in the process

Did you face any significant challenge in the IPO process?	f	%
Yes	23	100
No	0	0

The respondents were also asked to name the challenges they faced to which they responded as per Table 4.5 The strategic challenges are not listed in any particular order

Table 4.7 Strategic Challenges to IPO managers

	Strategic Challenges faced in the IPO management Process
1	Business Processes Restructuring
2	Pre IPO procedures -Valuation, Legal and business due diligence
3	Recruiting of advisory team
4	Infrastructure readiness
5	Selling the idea to Board of Directors
6	Staff Re orientation
7	Ownership Restructure

In order to determine the significance of each strategic challenge, the respondents were asked to rank the challenges from the most significant to the most insignificant. The results are summarised in Table 4.8

Table 4.8 Significance of the Strategic Challenge to IPO managers

Significance of the Strategic challenge	Most Significant		Significant		Neither significant nor insignificant		Insignificant		Most Insignificant	
	f	%	f	%	f	%	f	%	f	%
Business Processes Restructuring	20	87	3	13	0	0	0	0	0	0
Infrastructure readiness	20	87	1	4	1	4	1	4	0	0
Staff Re-orientation	12	52	11	48	0	0		0	0	0
Recruiting of advisory team	18	78	5	22	0	0	0	0	0	0
Ownership Restructure	15	65	6	26	2	9	0	0	0	0
Selling IPO idea to Board of Directors	11	48	12	52	0	0	0	0	0	0
Pre IPO procedures - Valuation, Legal and business due diligence	23	100	0	0	0	0	0	0	0	0

From the findings all the respondents ranked Pre-IPO procedures as the most significant challenge they faced. Business processing restructure and Infrastructure development were ranked as the next most significant strategic challenges by 87% respondents while 78% of the respondents said that recruiting of advisory team was one of the most significant challenge in the Management of the IPO process. The respondents also ranked Business Ownership Restructure, staff reorientation and selling the IPO idea to the Board of Management as ranking among the most significant challenges with 65%, 52% and 48% respectively.

4.6 Strategies for overcoming the Strategic IPO challenges

In order to overcome the challenges highlighted in Table 4.6, the researcher asked the respondents to name the strategies used to overcome them. Table 4.7 summarises the various strategies that were employed.

Table 4.9 Strategies used to manage the strategic Challenges

Strategic Challenges faced in the IPO management Process		Strategies used to overcome the Challenges
1	Business Processes Restructuring	Enhancement of the existing Business Processing center
		Creation of An IPO center to coordinate all IPO activities
		Centralization of other key business process
2	Pre IPO procedures Valuation, Legal and business due diligence	Engagement of competent valuers and Audit firm to undertake valuation
		Engaging the Banks regulator Central Bank of Kenya in the whole process
		Settlement of statutory payments rents, rates and other encumbrances with the relevant bodies
		Engaging competent Legal experts in transformation process
3	Recruiting of advisory team	Use of companies with past experience in IPOs
4	Infrastructure improvement	Enhancement of the existing ICT infrastructure
		computerization of key business processes
5	Selling the idea to Board of Directors	Use of past IPOs in the industry to explain benefits
		Proper analysis of Pros and Cons of IPO to justify arguments
6	Staff Re-orientation	Internal training of staff by Divisional Leaders, Regular updates through emails and memos on progress
		Staff roles revised to anticipate IPO activities
		Seconding of Competent staff to crucial support areas
7	Ownership Restructure	Classification of Shares into two A & B
		Clear identification of Class of shares on sale, Consolidation of shares held by 57000 Cooperative societies members into one
		transformation of the bank from a society to a limited company
		formation of subsidiaries to take over key functions of previous companies

Table 4.10 Effectiveness of strategies

	Strategic Challenges faced in the IPO management Process	Strategies used to overcome the Challenges	Very Effective		Effective		neither effective nor ineffective		not effective		very ineffective	
1	Business Processes Restructuring	Enhancement of the existing Business Processing IPO center to coordinate all IPO activities	22	96	1	4	0	0	0	0	0	0
		Creation of An IPO center to Coordinate all Business activities	23	100		0	0	0		0		0
		Centralization of other key business process	20	87	3	13	0	0	0	0	0	0
2	Pre IPO procedures Valuation, Legal and business due diligence	Engagement of competent valuers and Audit firm to undertake valuation	22	96	1	4	0	0	0	0	0	0
		Engaging the Banks regulator Central Bank of Kenya in the whole process	23	100	0	0	0	0	0	0	0	0
		Settlement of statutory payments rents, rates and other encumbrances with the relevant bodies	22	96		4	0	0	0	0	0	0
		Engaging competent Legal experts in transformation process	23	100	0	0	0	0	0	0	0	0
3	Recruiting of advisory team	Use of experienced companies as advisors	19	83	2	9	1	4	0	0	0	0
4	Infrastructure improvement	Enhancement of the existing ICT infrastructure	18	78	4	17	1	4	0	0	0	0
		computerization of key business processes	22	96	1	4	0	0	0	0	0	0
5	Selling the idea to Board of Directors	Use of Existing examples in the industry to explain benefits	23	100	0	0	0	0	0	0	0	0
		Proper analysis of Pros and Cons of IPO to justify arguments	23	100	0	0	0	0	0	0	0	0
6	Staff Re orientation	Internal training of staff by Divisional Leaders, Regular updates through emails and intranet on progress	21	91	2	9	0	0	0	0	0	0
		Staff roles revised to anticipate IPO activities	22	96	1	4	0	0	0	0	0	0
		Secondment of Competent staff to crucial support areas	23	100	0	0	0	0	0	0	0	0
7	Ownership Restructure	Classification of Shares into two A& B	23	100	0	0	0	0	0	0	0	0
		Clear identification of Class of shares on sale, Consolidation of shares held by Cooperative society cohorts into one	23	100	0	0	0	0	0	0	0	0
		transformation of the bank from a society to a limited company	23	100	0	0	0	0	0	0	0	0
		formation of subsidiaries to take over key functions of previous companies	23	100	0	0	0	0	0	0	0	0
		Average Effectiveness	22	96	0.8	4	0.2	0%	0	0%	0	0%

Table 4.7 highlights the strategic challenges and the strategies used to overcome them. Evidently combinations of strategies were used to ensure success. The researcher also set out to determine the extent to which the strategies used were successful in the management of the process.

The findings indicates that 96% of the respondents found the strategies employed as very effective in overcoming the strategic challenges encountered while 4% respondent indicated the strategies were effective. None of the 23 respondents found the strategies as being ineffective.

4.7. Economic Challenges

The pre-IPO environment as earlier highlighted in this Chapter's introduction was characterized by high inflation, low business and high unemployment. This research evaluated the economic challenges that the retail investors and IPO steering committee faced. The retail investors were asked the economic challenges they faced. Table 4.9 summarizes the findings.

From the findings lack of capital and lack of confidence to invest in the market were highlighted as the main challenges by 36% of the respondents. Only 16 % of the retail investors mentioned high cost of the share as a challenge while increased cost of living accounted for 32%.

The findings concurs with the Stakeholders in the IPO's who ranked the ranked Lack of confidence as the most significant economic challenge they faced while the Cost per share was ranked as the least significant challenge. In contrast to 33% of retail investors who ranked increased cost of living as the most significant economic challenge no steering committee member ranked the cost as most significant factor.

Table 4.11 Significance of the economic challenges faced by Investors

Significance of the economic challenge	Most Significant		Significant		Neither significant nor insignificant		Insignificant		Most Insignificant	
	f	%	f	%	f	%	f	%	f	%
Lack of enough capital	26	38	34	50	8	12	0	0	0	0
Lack of confidence in the stock market	36	53	25	37	7	10	0	0	0	0
Increased cost of living	33	49	24	35	11	16	0	0	0	0
High share cost	0	0	2	3	13	19	44	65	9	13

Table 4.12 Significance of economic challenges faced by IPO managers

Significance of the economic challenge	Most Significant		Significant		Neither significant nor insignificant		Insignificant		Most Insignificant	
	f	%	f	%	f	%	f	%	f	%
Lack of enough capital	9	39	9	39	5	22	0	0	0	0
Lack of confidence in the stock market	14	61	9	39	0	0	0	0	0	0
Increased cost of living	0	0	9	39	13	57	1	4	0	0
High Share cost	0	0	2	9	13	57	6	26	2	9

From the table the number of those who ranked lack of confidence in the market as the most significant economic challenge was 61% while only 39% of the respondent said lack of enough capital as important. Both the retail investors and the Steering Committee members indicated that the High cost of share was not a significant challenge. 57% of the Steering

Committee members interviewed indicated that the Share cost was neither significant nor insignificant. This compares with 19% of retail investors. Majority of retail investors interviewed 65% said that the cost of share was insignificant to their decision making regarding Cooperative Bank shares purchase

4.8. Strategies used to overcome them

Table 4.13 Strategies used to overcome Economic challenges

Economic challenge	Strategies to overcome them
Lack of enough capital	Extension of credit facilities to customers
Lack of confidence in the stock market	Regular assurance by Market leaders of stability Promotional articles on need to invest at the discounted prices by stock experts
Increased cost of living	Preferential credit rates terms offered to customers
High share cost	Discounted share from 14/- to 9.5/-

4.9. Logistic Challenges

The researcher was also interested in evaluating the logistical challenges that the IPO steering team faced. In the previous findings, 24 (35%) of the retail investors had indicated that few number and distribution of Cooperative bank branches posed a challenge to them while placing their orders. 33 respondents representing 49% of those interviewed said the long queues at the various sales outlets were a challenge to them. The table below summarises the logistical challenges that faced the IPO managers during the process

Table 4.14 logistic challenges encountered by IPO Managers

	Logistical Challenges
1	Cash Handling and deposit
2	Security
3	Timely Delivery of shares order from upcountry sales outlets
4	Personnel
5	Information dissemination to all stakeholders
6	Timely Approval of loan shares
7	Partnering with other stakeholders

4.10 Significance of the logistical Challenges

The respondents were also asked to rate the significance of the logistical challenges in order to determine the strength of each. Table 4.13 summarises the outcome

From the table majority of respondents 83% (19) ranked Partnering with other stakeholders as the most significant logistical challenge they faced while 65% (15) cash handling and reconciliation by various agencies as the most significant challenge. The other most significant logistical challenges were Information dissemination to all stakeholders at 61% and Timely delivery of shares orders from upcountry outlets at 57%

None of the respondents interviewed thought Security was the most significant challenge. This can be attributed to the fact that most processes had been computerised as evidenced by the 96% of the respondents who said that computerisation of key processes was very effective. Majority of the respondents 48% said that security was neither significant nor insignificant as a logistical element

Table 4.15 Significance of the Logistic Challenges

	Logistical Challenges	Most Significant		Significant		Neither significant nor Insignificant		Insignificant		Most Insignificant	
		f	%	f	%	f	%	f	%	f	%
1	Cash Handling and Reconciliation	15	65	4	17	4	17	0	0	0	0
2	Security	0	0	10	43	11	48	2	9	0	0
3	Timely Delivery of shares order from upcountry sale outlets	13	57	10	43	0	0	0	0	0	0
4	Personnel	3	13	9	39	11	48	0	0	0	0
5	Information dissemination to all stakeholders	14	61	9	39	0	0	0	0	0	0
6	Timely Approval of loan dates	6	26	11	48	6	26	0	0	0	0
7	Partnering with other Stakeholders	19	83	4	17	0	0	0	0	0	0

A significant number of respondents (48%) did not find Personnel significant of insignificant Only 39% of the respondents said Personnel were a significant challenge in the process

4.11 Strategies used to manage the Logistical Challenges

In the research, the respondents were asked to indicate the strategies they used to manage the Logistical challenges faced. The IPO managers used varying strategies to manage the logistical challenges. Some of the strategies had been put in place long before the issue while others were a response to a new challenge

Table 4.16 Strategies used to manage the Logistical Challenges

	Logistical Challenges	Strategies used to manage Challenges
1	Cash Handling and deposit	Requirement that investors use a deposit slip as evidence of payment Centralization of IPO cash services
2	Security	Extra security provided by the Security provider
3	Timely Delivery of shares order from upcountry sales outlets	Increased number of deliveries by courier services to head offices
4	Personnel	Hiring casual staff for the for the extra workload Introduction of night shift for key departments in the bank Increased working hours for normal staff
5	Information dissemination to all stakeholders	Dedicated one stop shop for all IPO communication
6	Timely Approval of loan shares	Hiring casual staff for the for the extra workload Introduction of night-shift for key departments Increased working hours for normal staff
7	Partnering with other stakeholders	Establishment of an office staffed with all stakeholders staff

Table 4.17 Effectiveness of the strategies used in managing the Logistical Challenges

	Logistical Challenges	Strategies used to manage Challenges	Most effective		Effective		Neither significant nor Effective		Ineffective		Most Ineffective	
			f	%	f	%	f	%	f	%	f	%
1	Cash Handling and deposit	Requirement that investors use a deposit slip as evidence of payment , Centralization of IPO cash services	19	83	4	17	0	0	0	0	0	0
2	Security	Extra security provided by the Security provider	16	70	7	30	0	0	0	0	0	0
3	Timely Delivery of shares order from upcountry sales outlets	Increased number of deliveries by courier services to head offices	20	87	[illegible]	13	0	0	0	0	0	0
4	Personnel	Hiring casual staff for the for the extra workload , Introduction of night shift for key departments, Increased working hours for normal staff	23	100	0	0	0	0	0	0	0	0
5	Information dissemination to all stakeholders	Dedicated one stop shop for all IPO communication	22	96	1	4	0	0	0	0	0	0
6	Timely Approval of loan shares	Hiring casual staff for the for the extra workload , Introduction of night-shift for key departments, Increased working hours for normal staff	14	61	5	22	4	17	0	0	0	0
7	Partnering with other stakeholders	Establishment of an office staffed with all stakeholders staff	20	87	3	13	0	0	0	0	0	0

4.12 IPO Financial challenges

The researcher also examined the financial challenges to the IPO. This was achieved by asking the IPO managers the financial hurdles that they faced.

Table 4.18 Financial challenges faced

	Financial Challenges
1	Legal fees
2	Accounting costs
3	Audit fees
4	Printing/Stationery costs
5	Regulatory fees
6	Underwriting Costs
7	Operational costs
8	Advertising / Promotion costs

The respondents were asked to rank the costs from the most significant. The results from the rankings are summarised on Table 4.16. From the summary Operational costs are the most significant in the IPO management at 83% followed by the regulatory fees at 65%. Advertising and promotional costs were the most insignificant at 13%. The legal costs were significant at 52% which may be explained by the fact that the firm had to transform from a society to limited company.

Table 4.19 Significance of the Financial challenge

	Significance of the Financial challenge	Most Significant		Significant		Neither significant nor Significant		Insignificant		Most Insignificant	
		f	%	f	%	f	%	f	%	f	%
1	legal fees	12	52	9	39	1	4	1	4	0	0
2	Accounting costs	9	39	8	35	4	17	2	9	0	0
3	Audit fees	10	43	13	57	0	0	0	0	0	0
4	Printing / Stationery	4	17	6	26	11	48	2	9	0	0
5	Regulatory fees	15	65	7	30	0	0	1	4	0	0
6	Underwriting fees	6	26	13	57	3	13	1	4	0	0
7	Operational costs	19	83	4	17	0	0	0	0	0	0
8	Advertising / Promotion	8	35	4	17	8	35	3	13	0	0

4.13 Managing Financial challenges

In spite of the numerous costs that faced the IPO process, the IPO managers employed various management skills to overcome them. The research examined the strategies and the effectiveness in managing the challenges.

Table 4.20 Strategies used to manage Financial challenges and their effectiveness

	Managing Financial Challenges	Most effective		Effective		Neither significant nor Effective		Ineffective		Most Ineffective	
		f	%	f	%	f	%	f	%		
1	Use of the Banks Legal Department where necessary to assist	6	26	17	74	0	0	0	0	0	0
2	Using Email for communication as opposed to letters and memos	23	100	0	0	0	0	0	0	0	0
3	Use of Bank's facilities for most operations	21	91	2	9	0	0	0	0	0	0
4	Use of shares equivalent as compensation	12	52	4	17	7	30	0	0	0	0

From the data analysed the use of electronic communication was the most effective strategy to reduce operational and printing costs at 100%. The bank decided to use most of it's existing structures and facilities which further reduced cost of operations. The IPO centre established within one branch of the Bank was one such facility. This strategy was ranked as 91% effective in reducing operational costs.

Other strategies which produced some degree of effectiveness were use of Bank's legal Department which effectiveness was 74%. Some of the services rendered were paid in equivalent of shares worth. 52% of those sampled thought that was a most effective strategy while 17% said it was just effective. 30% of the respondent did not find the shares equivalent offer as either effective or ineffective in managing IPO related cost

CHAPTER FIVE

SUMMARY OF FINDINGS, DISCUSSIONS AND CONCLUSION

5.1 Summary of the Chapter

This chapter summarized the findings of the study. This was based on the analysis of the data collected. The summary was guided by the Objectives of the study as set out in the Chapter One. Inference and meaning were arrived from at summary findings along the four variables outlined in the study objective.

The recommendations of the study are drawn from the findings. While the study was based on the Case of Cooperative Bank, it presumes homogeneity in IPOs and therefore provides a useful guidance into the study of other Initial Offers

The conclusion of this chapter highlights the limitations the study encountered and recommends ways in which such limitations can be managed by future students to improve on their study. It also highlights the scope covered and related gaps which future studies can cover in order to improve on this area of study

5.2 Findings

5.2.1 Strategic challenges that faced the IPO process.

The data analyzed reveals there were several strategic challenges faced the IPO process. The main challenge was the requirement that the retail applicant open CDSC accounts. Majority of the applicant did not know of the relatively new requirement and what was required to open one. Many of those interviewed did not know how a CDSC account operates. A significant number of those sampled expressed frustration with the few Cooperative Bank branches from where they could get information on the IPO and the long queues at the various sales agencies.

The study also examined the strategic challenges that the IPO managers faced. All the IPO managers admitted to have experienced significant strategic challenges. The study found out Pre-IPO procedures like Legal, valuation and business due diligence being the main challenges faced. The other key challenges were the restructuring of the business processes and Infrastructure readiness.

5.2.2 Strategies used to overcome them

Faced with the above challenges the IPO managers employed various strategies to manage succeed. Key among them was to ensure that all Pre-IPO requirements like legal transformation, valuation and conducting business due diligence was done before hand. Before the IPO the bank was operating under the Societies act but needed to transform into a limited company in order to meet the CMA eligibility requirement. This was done before the IPO.

Another key strategy was to consolidate the over 57,000 members in Cooperative societies ownership into one block, Coop Holdings. The shares held by the holdings were not for sale in order to ensure ownership of the bank remained with the Cooperative movements and stay within the Bank's vision.

In order to overcome challenges posed by the opening of CDSC accounts, the managers combined this function with the shares order such that investors could open a CDSC account at the time of filling in their order which saved the customer valuable time. The opening of CDSC accounts for investors was done at no cost which again lowered their cost

To minimise on the time spent making orders in the banking halls the bank engaged temporary staff specifically for the IPO. Mini tents were used at strategic points as IPO service points which greatly improved the services.

5.2.3 Economic Challenges

The study analysed the economic challenges that faced the initial offer. Majority of the retail investors indicated that lack of confidence in the stock market was the most significant factor in determining their participation in the offer indicating a direct relationship between the stock performance and willingness to invest. This compares well with the findings from the IPO steering team that the performance of the stock markets locally and globally was the most significant economic challenge they faced

The performance of the market in the period leading to the issue was an instrumental factor in guiding investors on whether to participate in the offer. The cost of living also played a significant role as was high cost of capital of capital to invest. A high number of retail investors interviewed mentioned that the cost of living was the next most significant challenge they had to consider. This contrasts with the findings from the IPO Steering team who did not find the cost of living as posing most significant challenge at all. Of critical importance is the fact that all the retail investors and Steering Committee members did not find the cost per share posing significant challenge. The pricing of the share in this issue did not have a significant relationship to the decision to invest.

5.2.4 Strategies used to overcome economic challenges

The IPO managers responded to the economic challenges by executing the following strategies. Being a lender the bank was able to extend credit facilities investors willing to participate but were constrained by capital at negotiated rates. This was a relief to most retail and Institutional investors who were constrained by capital but desired to acquire the shares.

The IPO also hired a Public relations firm to promote the IPO in the various media. Part of the firms mandate was to outline the benefit of investing in a market which when the prices were low as there were immense benefits to be recouped when the market improved.

The cost of share was discounted from Kes 14 to Kes 9.50 in order to ensure affordability. This may partly explain why most of the respondents sampled did not find the cost of the share as posing a significant challenge.

5.2.5 Logistical challenges

The study also examined the logistical issues that the IPO process had to contend with. All Steering Committee members were asked the most significant logistical challenge. From the finding of the analysis it emerged that Partnering among all stakeholders was most significant challenge. It's important to point out that there were over 30 members drawn various companies to form the Steering team. Coordination and communication between and among all the members therefore posed a significant logistical challenge. This is also corroborated by the findings that Information dissemination among the IPO team was the third most significant challenge.

The analysis also found significant challenge in the cash handling and reconciliation. During the IPO process the Bank had decided to partners with National Bank as it's agent while several other brokerage firms also sold shares on it's behalf. There was therefore a big challenge in reconciling the accounts from all the different agencies.

As a result of automation of various business processes like use of CDSC accounts and hiring competent courier service companies, the delivery of orders from upcountry outlets did not pose a significant challenge. None of those interviewed mentioned security as very significant challenge with almost half of the respondents saying it was neither significant nor insignificant.

5.2.6 Strategies used to overcome the challenges

There were numerous challenges that faced the IPO as outlined above. The IPO managers applied several strategies in order to overcome them. Centralisation of IPO activities played a significant role in minimising cash handling and reconciliation challenges. The bank also enhanced security by requesting for additional staff from the Security provider while the number of deliveries from up county branches to the IPO processing centre were also increased.

To cope with the increased processing workload temporary staff were hired, trained and seconded to the IPO processing points. This ensured improved service delivery and considerably reduced the service time.

To ensure smooth flow of information, a one stop communication centre dedicated to IPO was established. This ensured homogeneity of information flow and reduced knowledge gap among the staff. The centre also reduced the response time for any queries relating to IPO processing.

5.2.7 Financial challenges

The study established that operational costs were the most significant cost item to the process while printing and stationery was the least. The operational cost was high due to the period of operation of the Steering committee which continued well past the offer date. Most of the operational costs was taken up by telephone communication and rental costs for the facilities used. There were also a number of training sessions and piloting organised for staff members

Other significant costs included fees payable to regulatory bodies, audit and legal fees while Accounting, underwriting and advertising/promotion costs were also significant

5.3 Recommendations

Research findings show that the bank faced several challenges in the implementation of it's IPO. It emerges that for a firm to successfully issue an IPO there is need to assess all strategic needs in advance and ensure that relevant strategic options are taken. Addressing Pre-IPO requirements fully is a significant measure to ensure success. To achieve that establishing an IPO steering team well in advance is key. However of importance is ensuring that an efficient communication channel exists to receive and disseminate information to all relevant parties in good time.

It's instructive to note that capital for investment can be a constraining factor. IPO managers should liaise with available lenders and where possible negotiate favourable rates for the investors to ensure success

The findings demonstrate that one cannot afford to ignore other stakeholders in the industry. The success of such a venture is reliant upon the synergy created by the entire IPO team including but not limited to Government, Central bank, CMA, brokers, investment bankers, media, Saccos, Legal experts, auditors and accountants, marketing and advertising experts and more importantly the media.

Staff of any institution forms a vital resource and should be well trained to handle the IPO requirements. Of importance is to ensure that they are well versed with their roles, equipped with necessary tools and motivated.

It's also important that the organisation handling IPO processing have the relevant infrastructure to cope with the huge demands. Internal processes should be revised to ensure a smooth flow. It would also be necessary to establish a Central IPO point equipped with relevant human, physical as well as necessary materials to manage the IPO

5.4 Limitations of the study

The study was done for an organisation that faced a hostile economic environment due to global recession and unstable political environment. It would be difficult to generalize the results of this study since the macro and micro environment of a firm keeps changing and every IPO is sensitive to the environment around which it's placed. Different offers will face different challenges at varying degrees hence the need for future studies to take cognisance of the prevailing environments.

The study was also carried out with limited resources and time which constrained the scope of the study. The data collection was constrained by unavailability of some Steering Committee members due to their nature of work which took a lot of time.

5.5 Suggestions for further research

Stock market in Kenya is relatively small in comparison with established markets like South Africa, Egypt and in developed countries. Further studies can be carried in this area. Several firms have in the past postponed their issuing of IPO. It would be important for example to study the underlying reasons why firms keep postponing the IPO issue. For students of project management this area of study can be a good area to investigate project management skills required in management of the process. It would be a good idea for example to study why given the same deliverables, some IPO's fail while others succeed. The challenges faced by underwriting firms in view of their importance can also provide further study areas in project management.

5.6 Summary

The objectives of this study were to investigate the challenges of an IPO process focussing on Cooperative Bank. The findings reveal that there are various challenges the IPO faced. The economic challenges included subdued confidence in the stock market occasioned by the Global recession, Poor economic performance, lack of capital to invest and cost of the share. Strategic challenges faced included requirement lack of CDSC accounts by majority of applicants. A good number of respondents did not know how to operate CDSC accounts. Critical too was the few outlets for sale of shares which occasioned long queues.

Pre-IPO procedures like Legal, valuation and business due diligence posed significant strategic challenges with other key challenges being restructuring of the business processes and Infrastructure readiness. There were a numerous financial costs like operational, regulatory, legal, audit among others. The IPO also faced a numbers of logistical challenges with the most significant being partnering with other stakeholders, information dissemination, cash handling and reconciliation and timely delivery of shares order from upcountry sales outlets.

Several strategies were used to address the challenges with varying degree of effectiveness. Key among them was the establishment of an IPO Steering team from the various stakeholders, creation of in IPO processing centre, infrastructure readiness and business processing review.

While a number of strategies were used to manage the challenges it's important to point out that it's the combination of all that resulted to the successful offer. Further studies have been recommended in areas that the study has not covered.

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APPENDICES

APPENDIX I

QUESTIONNAIRE FOR IPO STEERING COMMITEE MEMBERS

This questionnaire is meant for data collection on the challenges that faced the Cooperative Bank IPO process. This is an academic research paper and the information provided will be treated with strict confidence and will be used solely for the purpose of this research topic.

Name:
Organisation
Position:

1. What role(s) were you playing IPO process?

2. (i) Did you face any strategic challenges in the IPO process?

(ii) If yes in question (2) above which challenges were they?

(iii) Please rate the above challenges in order of significance

Significance of the Strategic challenge	Most Significant	Significant	Neither significant nor insignificant	Insignificant	Most Insignificant
1	5	4	3	2	1
2	5	4	3	2	1
3	5	4	3	2	1
4	5	4	3	2	1
5	5	4	3	2	1
6	5	4	3	2	1
7	5	4	3	2	1

(iv) What strategies did you use to overcome the challenges?

(v) How would you rate the effectiveness of the above strategies?

Strategies used to overcome the Challenges	Very Effective	Effective	neither effective nor ineffective	Ineffective	Very Ineffective
1	5	4	3	2	1
2	5	4	3	2	1
3	5	4	3	2	1
4	5	4	3	2	1
5	5	4	3	2	1
6	5	4	3	2	1
7	5	4	3	2	1
8	5	4	3	2	1
9	5	4	3	2	1
10	5	4	3	2	1
11	5	4	3	2	1
12	5	4	3	2	1
13	5	4	3	2	1
14	5	4	3	2	1

3. (i) What economic challenges did you have to cope with during the IPO process?

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(ii) Please rank the above challenges in order of significance

Significance of the economic challenge	Most Significant	Significant	Neither significant nor insignificant	Insignificant	Most insignificant
1	5	4	3	2	1
2	5	4	3	2	1
3	5	4	3	2	1
4	5	4	3	2	1

(iii) What strategies were employed to overcome the above challenges?

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4 (i) Did your team face any Logistical challenges?

(ii)If yes in 4 (i) which?

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(iii)What strategies were employed to overcome them?

(iv) How effective were the strategies?

Logistical strategy	Very Effective	Effective	Neither effective nor ineffective	In Effective	Most In Effective
1	5	4	3	2	1
2	5	4	3	2	1
3	5	4	3	2	1
4	5	4	3	2	1
5	5	4	3	2	1
6	5	4	3	2	1
7	5	4	3	2	1

31. (i) Which financial challenges if any did the committee face in the process?

(ii) How do you rate the significance of each of the above challenge?

Economic Challenge	Very Significant	Significant	Neither significant nor insignificant	In significant	Most In significant
1	5	4	3	2	1
2	5	4	3	2	1
3	5	4	3	2	1
4	5	4	3	2	1
5	5	4	3	2	1
6	5	4	3	2	1
7	5	4	3	2	1

(iii)What strategies were put in place to manage the challenges in 5 (ii)?

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APPENDIX II

QUESTIONNAIRE FOR IPO RETAIL INVESTORS

This questionnaire is meant for data collection on the challenges that faced the Cooperative Bank IPO process. This is an academic research paper and the information provided will be treated with strict confidence and will be used solely for the purpose of this research topic.

Name:
Age:
Occupation:

1. How long have you invested in stocks

(a) Less than 3 years ( )

(b) 3-5 years ( )

(c) 5-10 years ( )

(d) Above 10 years ( )

2. What was your main source of information on Cooperative Bank IPO?

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3. What challenges did you go through when placing order for your shares

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4 What economic challenges did you face during the Cooperative Bank shares IPO?

5 How significant were the above economic challenges to your purchasing Cooperative Bank shares?

Significance of the economic challenge	Most Significant	Significant	Neither Significant nor Insignificant	Insignificant	Most Insignificant
1	5	4	3	2	1
2	5	4	3	2	1
3	5	4	3	2	1
4	5	4	3	2	1

6 Was there sufficient information to help you decide on investing in Cooperative Bank IPO? Please explain

Thank you for your time.