

**An Assessment of the Relative Importance of the Factors Influencing
Decision Making in Initial Public Offerings (IPOs) in Kenya**

By

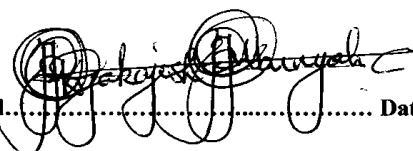
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award of the degree of Master of Business Administration of the School
of Business, University of Nairobi**

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DECLARATION

This Management Research Project is my own original work and has not been presented for a degree in any other University

Signed.......... Date..... 23-NOV-2010

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This Management Research Project has been submitted for examination with my approval as the University Supervisor

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DEDICATION

This management research project is dedicated to my wife Elizabeth Kavee and sons Ben, Munene and Mark without whose sacrifice and understanding the work would not have been possible

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ABSTRACT

The present study set out to assess the relative importance of the factors internal to a firm that motivate companies to conduct IPOs at a particular given time, at a certain offer price with the help of a specific underwriter and investment banks . The study was designed to understand the

dynamics of the IPO process in companies going public in Kenya. Past research trends have had an excessive dependency on publicly available stock market data contained in the filings and publications of stock exchange authorities. This research paper sought to investigate from an empirical perspective the fundamental questions in IPOs and the specific factors which managers consider as important in the process of an Initial Public Offering in corporate Kenya.

The study revealed that, among the factors motivating firms to issue an IPO was the desire to broaden their ownership base and the need to minimize their cost of capital. The decision as to when to roll out the IPO is most influenced by the firm's timing for implementing its investment expansion programmes and overall market conditions. The industrial expertise of the underwriter bank and their quality of the trading desk services and liquidity services are the two most important factors influencing the choice of the underwriting bank among Kenyan firms. The desire to reduce IPO marketing costs and the intention of creating a cascade effect so as to make the IPO attractive and thus successful were found to be the most important factors influencing the levels of under-pricing witnessed in Kenyan IPOs. The two most important positive signals that IPO firms would want to send are strong historical earnings and their ability to use one of the big four accounting firms. The most negative signal they do not want to send to the public is the sell of insider shares to external investors during the IPO. Finally in terms of process issues, IPO firms are more concerned with a firm commitment arrangement and a long lock up period by original owners as means of making the IPO attractive to investors and thus guaranteeing its success.