

**A SURVEY OF THE MOTIVATION TO GOING PUBLIC AMONG
PRIVATE HOSPITALS IN KENYA**

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**A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILLMENT OF THE
REQUIREMENT FOR THE AWARD OF MASTER DEGREE IN BUSINESS
ADMINISTRATION**

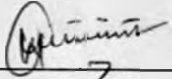
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DECLARATION

I declare that this research project is my original work and has not been previously presented for a degree in Nairobi University, or in any other University.

No part of this work should be published without the prior knowledge or consent of the author, or that of Nairobi University.

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This research project has been submitted for examination with my approval as the university supervisor.

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To God be the honor, for the gift of life and resources.

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DEDICATION

To my beloved wife Essie and my children Charlene Atieno and Gabriel Baraka for all the support they granted me during my study.

ABSTRACT

Health is a fundamental human right, which must be supported by fair and sustainable health financing systems, based on equity and efficiency in promoting universal access to quality health care and protecting people, especially those living in poverty or in conflict areas, from financial risks and catastrophic health expenditures. The main objective of this research was to find out whether IPO-based equity financing strategy is a viable alternative method for meeting the capital demand in the health care industry in Kenya since fuelling the growth and expansions in the industry is not possible through bank loans and private equity alone. The survey of finance managers from eight private hospitals in Kenya which are big enough to go public about the motivations of going public identified financing for growth as the most important benefit of an IPO. Their views on other motivations vary from hospital to hospital. Seven of the eight hospitals surveyed view going public primarily as a means to raise capital for growth and as a vehicle to strengthen their bargaining power with creditors without relinquishing control. Despite divergent views on other issues, nearly all finance managers agree that the benefits of going public significantly outweigh the costs. The study asked questions on assumptions and implications of several IPO models. The results provide strong support for the IPO theories that emphasize financing as a major advantage of an IPO, and medium support for models that focus on investor recognition, balance of power, monitoring, and financial flexibility as major benefits among different hospitals. The study finds less support for the asymmetric information and cost of capital theories. Evidence gathered suggests that going public is a viable alternative financing option worth giving a thought in the Kenyan health care industry.

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DEFINITION OF ACRONYMS

MOH- Ministry of Health

FBO- Faith based Organization

NGO- Non- governmental Organization

IPO- Initial Public Offering

CFO- Chief Finance Officer

Mpesa- Mobile Pesa(money)- a money transfer service through the phone

GDP- Gross Domestic Product

KEPH- Kenya Essential Package for Health

SPSS- Statistical Package for the Social Sciences

WIMAX- Worldwide Interoperability for Microwave Access

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CHAPTER ONE

INTRODUCTION

This section provides an ample background on the topic, the problem to be uncovered by the study in order to present the objectives of the study and the research questions

1.1 Back ground of the Study

Health is a fundamental human right, which must be supported by fair and sustainable health financing systems, based on equity and efficiency in promoting universal access to quality health care and protecting people, especially those living in poverty or in conflict areas, from financial risks and catastrophic health expenditures (Kampala Declaration, 2005). This paper focused on the major motivations for going public, raising financing for growth; it also sought to understand the underlying assumptions and the trade-off between costs and benefits of going public for the private hospitals in Kenya. Maksimovic and Pichler (MP, 2001) and Chemmanur and Fulghieri (CF,1999) both assume that an IPO is a vehicle for raising equity financing for growth where the former models it as a strategic move and the latter as a move to increase the owner's balance of power against a small group of investors.

The healthcare sector cannot continue to rely on the public hospitals to meet its needs. Kiringai (2006), in a report Readings in inequality in Kenya: Sectoral Dynamics and Perspectives states that government allocations of health expenditure to a large extent rely on availability of health care facilities. 'In areas where health care facilities exist, recurrent expenditure to fund hospital equipment, drugs and pharmaceuticals will automatically be allocated to these facilities'. As a result, regions with more health care

facilities will be allocated a larger share of the recurrent and development budget, however, in areas with few or non-existent health care facilities, the situation is the reverse. Government expenditure has thus perpetuated and exacerbated the skewed distribution of health care facilities in Kenya.

Today, corporatization of healthcare, increased awareness among the masses, increase in lifestyle-related disease and increased healthcare insurance are some of the driving forces for hospitals to increase their base across Kenya. Fuelling these expansions is not possible through bank loans and private equity alone. The funds for these are possible only by going public. Public equity can improve the resource utilization since the promoters are more accountable to shareholders and Government regulators (Shukia, S and Nayantara, S, 2007).

Gapenski (1996) argues that a firm that has an adequate amount of fund capital can operate at its optimal capital structure and thus minimize capital costs. If sufficient fund capital is not available, a not-for-profit firm may be forced to rely too heavily on debt financing, resulting in higher capital costs. Also, its weakened financial condition may prevent it from acquiring capital equipment that would increase its efficiency and improve its services, thus hampering its overall operating performance.

1.1.1 IPO- Based Equity Financing

An initial public offering (IPO) occurs when a corporation sells common stock to the general public for the first time (William, Hughes, & Kapoor, 2009). The value of a firm is determined by its financial structure; debt and equity. Debt capital is those funds raised through loans and equity capital is all the capital provided by the firm's owners (Brigham

and Daves, 2004). Ross et al. (2002) indicate that there are two methods of raising capital; internal financing and external financing. Internal financing are funds created from internally generated cash flows. External financing refers to any funds provided by third parties to a company. Both debt and equity financing are therefore external financing tools. Equity financing differs from this as it relates to non-contractual claims to any residual cash flows of the firm. The firm receives funds in exchange for a share of ownership. Equity financing differs from equity, as the first refers to giving up a part of the firm to raise funds while equity can also consist of charitable contributions (Ross et al. 2002).

It was argued that after fifty years of Modigliani and Miller research, understanding on firms' financing choices is limited, where information on financing tactics such is apprehended well than information on financing strategy such as a firm's choice of target capital structure (Myres, 2001). Maksimovic and Pichler (MP, 2001) and Chemmanur and Fulghieri (CF,1999) both assume that an IPO is a vehicle for raising equity financing for growth where the former models it as a strategic move and the latter as a move to increase the owner's balance of power against a small group of investors.

According to (Frank & Goyal, 2005) and (Kraus & Litzenberger, 1973), firms will always base their decisions to issue equity or utilize debt based on the market timing as well as on the risk benefit trade off. The costs of 'going public' include;

Adverse selection costs; costs following from information asymmetry when investors are less informed than the issuers of stock on the true value of the organisation which in turn causes underpricing, Costs of issuing stock; listing fees, underwriting commissions and

management time. Others include ongoing expenses; cost of reporting information, cost of dealing with shareholders and other administrative expenses.

According to Brau J. B,(2003), a large part of the company information has to be made public. Before, during and after the process of an IPO, private company information is made public which private companies do not have to do. Occasionally this information could be commercially sensitive.

Finally, the motivations of going public are also likely to differ across countries because of the differences in their legal and institutional environments (c.g., Ritter (2003), Jenkinson and Ljungvist (2001), and Degeorge and Maug (2006), La Porta et al. (1998)). The research will try to find out whether there are such restrictions in Kenya and whether they explain the reluctance for the hospitals to go public.

1.1.2The Health Care System in Kenya

Kenya's current health care systems are anchored on the Health Sector Policy Framework of 1994 and the subsequent National Health Sector Strategic Plans 1999-2004 and 2005-2010. These documents form the foundation of the health sector reform programmes and have guided the implementation of the on-going reforms. The introduction of the Sector Wide Approach to health planning and funding has gone a long way in bringing together all the players in the sector within the spirit of Public Private Partnership. Also as part of the reforms, the introduction of the Kenya Essential Package for Health (KEPH) system has enhanced collaboration among the existing essential service packages and a shift from the previous focus on disease burden to the promotion of healthy lifestyles of individuals and communities. In this respect, the establishment of the six life-cycle

cohorts and the classification of health facilities into six levels of service delivery are important aspects of the KEPH system.

Table 1: Levels of the public healthcare system

Level	Facility Type
VI	Tertiary Hospitals
V	Secondary Hospitals
IV	Primary Hospitals
III	Health Centres, Maternities, Nursing Homes
II	Dispensaries, Clinics Interface
Interface	
I	Community: Villages/Households/Individuals

Source: Ministry of Health and Sanitation (June 2012)

The health sector is pluralistic in nature, where health services are provided by many players including the public sector through the Government of Kenya (GOK) and parastatal organizations, the private sector comprising the Faith Based Organizations (FBOs), Non-Governmental Organizations (NGOs) and the Private for-profit facilities. The public sector is the largest provider and financier of health services and operates health care facilities throughout the country accounting for about 52% of these facilities

1.1.3 Healthcare Financing in Kenya

Kenyan healthcare industry is currently funded mainly by philanthropists, the private and public healthcare insurance, international grants and the ministry of Finance based on annual budgetary allocations (Kimani, et al 2004). Although the health physical infrastructure has expanded rapidly since independence, maintenance and rehabilitation

has been a problem because expansion has not been complemented with a parallel rise in financing. Most equipment essential to effective and efficient provision of quality healthcare is in need of repair, rehabilitation, or replacement.

The private healthcare sector has made a remarkable contribution in delivery of healthcare to the public. The sector is used by almost all socioeconomic groups, and appears to have relatively better distribution in both rural and urban areas. Nevertheless, there has not been proper policy formulation for this sector due to its diversity and nature. As Hanson and Berman (1994) note, failure to consider the diversity of private healthcare providers could lead to faulty policy advice because form, behavior, and importance with respect to both size and range of activities is likely to differ significantly between types of providers.

1.1.4 IPO as an Alternative Financing Healthcare Industry in Kenya

The IPO trend in healthcare was started by Chennai based Apollo Hospitals in India. Soon many hospitals followed suit. This helped in improving services and also brought in good revenues. According to reports, Apollo will be spending around \$22 million to set up a hospital in Mauritius (The Financial Express, December 05, 2007). In comparison to the other sectors, healthcare sector still has a long way to go in the IPO market. In spite of apprehensions, analysts feel that IPOs can give the required boost to the healthcare industry. Ernst and Young's 2007 report on the sector mentions that with the introduction of corporate hospitals and major expansion plans of the industry, the debt-equity ratio (DER), would be much higher in the future.

According to Flessa (2010), Kenyan private hospitals can be categorized into two broad categories: Low- quality private for profit hospitals for the poor and High – quality private for profit hospitals for the rich. He also contends that the emerging economies expect the government to fully support the health care services. This however needs not be the case and the face of the Kenyan healthcare can be improved beyond the above definition.

Firms listing at the market are driven by the need to grow their productivity by investing in technology, the need to strengthen their capital base and the need to dilute shares through privatization. The benefits of going public include increased investment, profitability and growth opportunities and also easing the financial constraints. These advantages, however, have not attracted entrants from the health care sector in Kenya, may be because hospitals do not understand the benefits of going public or the cost of doing so, or simply it has never been considered as an option.

Common belief that health care is public good may no longer hold in the majority of current capitalist economies. Weisbrod (1977) hypothesized that private not-for-profits arise to satisfy demands of particular groups for the production of public goods. These goods have two characteristics: (1) non-rivalness in consumption in the sense that consumption by Person A does not affect consumption by Person B; and (2) non-excludability in the sense that individuals who do not pay cannot be excluded from consuming the good or service. In the context of hospitals, the vast majority of services, for example a hospital day or a laboratory test, do not satisfy these criteria. A public good might be the good feeling from knowing that everyone in the community has access to care.

The importance of the public good argument depends on the extent to which private not-for-profit or public hospitals provide more public goods than their for-profit counterparts. This is an empirical question which I address in detail below.

A functioning health system should be established relying upon collaboration and partnership among all stakeholders whose policies and services have an impact on health outcomes. It is with this in mind that the study tries to explore the possibility of the private hospitals going public to get the much needed additional financing

1.2 Statement of the Problem

Faced with inadequate and declining government funding for ministry of health services, many African countries have recognized they cannot meet their traditional commitment to provide a basic level of health care, free of charge, to the whole population. They also recognize limitations in their governments' ability to raise general tax revenue, as well as the unlikelihood of continued and substantial amounts of external donor assistance for health care (Leighton, 1995).

Leonard et al (2000) observe that government health services have failed to provide reliable and good quality healthcare despite the fact that patients exhibit willingness to pay for quality healthcare. Non-governmental healthcare providers seem to be running successful healthcare facilities for which even poor patients are willing to pay. This is however at a cost far beyond the common citizen's reach. Adequate financing will allow the hospitals to invest in state of the art technology and set up specialized treatment such as the heart and cancer centre in the Aga Khan University Hospital built at a cost Sh4.25 billion (\$50 million) (Mugwe, 2011) and the oncology clinic at the Karen hospital. This

said, lack of funds to offer these services at an affordable price remains a major concern. The ripple effect is that health clinics have mushroomed in all corners of the country. (Kimani et al, 2004).

Economic literature suggests that for-profit organizations outperform not-for-profits. For-profit hospitals are reported to display behavior such as eliminating medical services which are not 'profitable', lower quality or other negative activities (Hansmann, 1980 and Dijkgraaf et al., 2006). Allowing profit distribution by going public can enable to attract funds from private investors (more easily). In addition to this, hospitals will increasingly experience more financial risk for which they will have to improve their capital structure, especially their equity position. As the health care systems and values are more similar within the emerging economy boundaries, an analysis in this area could contribute to the existing literature. For that reason, this project focuses on the Kenyan private hospitals

Kumaranayake (1998) clearly state that many problems arise in the financing and delivery of health services. These include: poor physical infrastructure and a shortage of qualified staff; low standards of care; poor equipment or inappropriate technology. The recent campaign by Dr. Zachary Kimotho of the famous "BringZackBackHome" in an attempt to raise funds for setting up the first spinal cord rehabilitation centre further begs the question as to whether all avenues of financing the health care industry have been exhausted (Kosgei, 2012). There was thus a dire need to establish the existence of these deficiencies and try to explore non conventional financing option for the sector with emphasis on IPO-based equity financing.

1.3 Research objectives

The main objectives of this research was to find out whether IPO-based equity financing strategy is a viable alternative method for meeting the capital demand in the health care industry in Kenya. The study aimed to find out whether this method of financing would help spread the business risks and lower cost of offering health services to the Kenyan populace

1.4 Value of the study

There has been literary interest within the private and government circles to enhance growth and affordability of the health care in Kenya with a view of having universal health care. (Government of Kenya, 2001a) This in effect means there is need to rethink the financing strategies and make the hospitals more affordable to the masses. This can only be achieved when the hospitals are well funded and able to benefit from economies of scale. The study was thus meant to explore the options available for financing the Kenyan health sector based on the Apollo Hospitals model which acts a major driver behind this research.

The findings will serve as a strategic tool for the government and the private sector to utilize in the formulation and implementation of growth strategies in the health sector in line with the social pillar of the vision 2030. It will also make an optimistic input to health care systems and enrich research work in the area of universal health care provision.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

Literature review highlights the various IPO theories and studies undertaken in relation to equity financing. This section shall provide studies financing cycle and the capital structure theories as well as the key documented motivations for going public. The researcher shall provide a synthesis of the whole chapter in relation to the study

2.1 Review of Theories

2.1.1 Trade-off theory of capital structure

The trade-off theory of capital structure refers to the idea that a company chooses how much debt finance and how much equity finance to use by balancing the costs and benefits. The classical version of the hypothesis goes back to (Kraus and Litzenberger, 1973) who considered a balance between the dead-weight costs of bankruptcy and the tax saving benefits of debt. Often agency costs are also included in the balance. This theory is often set up as a competitor theory to the pecking order theory of capital structure. A review of the literature is provided by (Frank and Goyal, 2005)

An important purpose of the theory is to explain the fact that corporations usually are financed partly with debt and partly with equity. It states that there is an advantage to financing with debt, the tax benefits of debt and there is a cost of financing with debt, the costs of financial distress including bankruptcy costs of debt and non-bankruptcy costs (e.g. staff leaving, suppliers demanding disadvantageous payment terms, bondholder/stockholder infighting, etc.). The marginal benefit of further increases in debt

declines as debt increases, while the marginal cost increases, so that a firm that is optimizing its overall value will focus on this trade-off when choosing how much debt and equity to use for financing. According to Conrad(1984), although the trade-off theory may be conceptually correct for not-for-profit businesses, a problem arises when applying the theory. For-profit firms have relatively easy access to equity capital. Thus, if a for-profit firm has more capital investment opportunities than it can finance with retained earnings and debt financing, it can generally raise the needed funds by a new stock offering. Further, it is relatively easy for investor-owned firms to alter their capital structures. For example, if a firm is underleveraged it can simply issue more debt and use the proceeds to repurchase stock, or if it has too much debt it can issue additional shares and use the proceeds to retire debt.

2.1.2 Market timing hypothesis

The market timing hypothesis is a theory of how firms and corporations in the economy decide whether to finance their investment with equity or with debt instruments. Baker and Wurgler (2002), claim that market timing is the first order determinant of a corporation's capital structure use of debt and equity. In other words, firms do not generally care whether they finance with debt or equity; they just choose the form of financing which, at that point in time, seems to be more valued by financial markets.

Market timing is sometimes classified as part of the behavioral finance literature, because it does not explain why there would be any asset mis-pricing, or why firms would be better able to tell when there was mis-pricing than financial markets (Ronald and Edgar,

2011). Rather it just assumes these mis-pricing exists, and describes the behavior of firms under the even stronger assumption that firms can detect this mis-pricing better than markets can. However, any theory with time varying costs and benefits is likely to generate time varying corporate issuing decisions.

2.1.3 Signaling Theory

At the end of the 70's, Ross (1977), and other writers developed the capital structure signalling theory based upon the problems of the asymmetrical information between managers and investors. These models are based upon the idea that the top executives of the firm that have inner information, have a motive to transfer this knowledge to the external investors, so that the stock price will rise. However, managers cannot simply announce the good news to the investors, since they will face it with suspicion.

According to a group of theories, for example Ross (1977) and Leland and Pyle (1977), the choice of the capital structure of the firm is a signal for the external users. Ross believes that capital structure functions as a signaling mechanism in the market. The changes in capital structure can alter the conception of the market for the firm's value. Ross (1977), Noe (1988) and Narayanan (1988) predict a positive reaction of the stock price to the debt increase, while Myers and Majluf predict that the stock price will not be affected by the undertaking of a risk free loan. Lucas and McDonald (1990) find that the stock price falls after the announcement of an equity raise, but after a small period of time it rises. According to Krasker (1986), the stock price is negatively correlated with the issue size.

Furthermore, the precision of the signal is significant as well (Veronesi, 2000). Signaling theory is founded upon the idea that the internal users know more things than the external users. Moreover, the wages and the privileges that managers have, are sometimes dependent on the market value of the company. This gives the firm the motive to provide the information to the investors that the firm is underestimated. The increased leverage indicates greater possibilities of bankruptcy. It signals positive evolutions, since the request for a loan means that the administration believes that the good progress of the firm will allow it pay off.

The information will be credible only if the cost of the false revelation is high enough to force the firm to reveal the truth. The leverage increase is an effective signal. The loan contracts force the firm to have stable cash flows during the loan period and if the firm does not have it, it will face serious consequences, such as bankruptcy. On the contrary, in the case of equities, things are more flexible. Stockholders wait typically for, some cash payments, but in this case the administration has the aptitude to reduce or omit them during financial recessions. For this reason, taking a new loan is a credible signal for the future cash flows to fulfill its obligations.

Finally, according to Barclay, Smith and Watts (1995) the empirical support to signalling theory is statistically significant, but economically insignificant. The companies of high quality use more debt, but the differences in leverage are very small.

2.1.4 Financing Cycle and Capital Structure Theory

There have been many previous studies that examine which factors influenced the choice of firms' capital structure. However, there has been little that analyzes the choice of

firm's capital structure over firm life cycle. For instance, Bulan and Yan (2009) found that the pecking order theory described the financing patterns of mature firms better than that of younger growth firms. Older and more mature firms are more closely followed by analysts and are better known to investors, and should therefore suffer less from problems of information asymmetry. Hence, their findings suggest that older, more stable and highly profitable firms with few growth opportunities and good credit histories are more suited to use internal funds first, and then debt before equity for their financing needs.

Bulan and Yan (2009) documented this result as a maturity effect in firm financing choice. Mature firms were able to borrow more easily and at a lower cost. Therefore, by the very nature of their life cycle stage, mature firms were pre-disposed to utilizing debt financing first before equity. Petersen Rajan (1995) presented evidence that older and more mature firms had access to a lower cost of debt, all else equal. Furthermore, mature firms generally have more internal funds due to higher profitability and lower growth opportunities. Hence, by nature of their life cycle stage, they concluded that mature firms were in a better position to following the pecking order.

However there are some empirical evidence for the pecking order theory over firms life cycle which are inconsistent such as the case with Halov and Heider (2003) whose main hypothesis was that firms issued more equity and less debt in situations where risk was an important element of the adverse selection problem of outside financing. They found robust empirical support for the hypothesis and documented a strong link between asset risk and the decision to issue debt and equity in a large unbalanced panel of publicly traded US firms from 1971 to 2001

2.2 Funding for Growth Opportunities

Ritter and Welch (2002) argue that most firms go public primarily to raise new capital for growth. Kim and Weisbach (KW, 2005) provide evidence consistent with this notion in a sample of IPOs conducted between 1990 to 2003 in 38 countries. They document that almost all firms raise substantial amount of new capital in the IPO, although European firms also sell a relatively large portion of the firm's existing shares. They also report that new funds raised in the IPO are used for a variety of purposes including financing growth and rebalancing leverage.

In line with Kim and Weisbach (2005), it is also evident that firms use the cash raised in the IPO for several purposes. The firms that report a reduction in leverage after the IPO also assign a higher mean rating to the benefit of raising capital for growth indicating that firms may use part of the funds for rebalancing their leverage. Further, the benefits of raising capital for growth are also strongly positively correlated with the reduction in leverage, the enhanced financial flexibility and the reduction in cost of financing.

Brau et al. (2003) argue that an IPO allows firms to create publicly traded shares that can be used as a currency for growth through merger or acquisitions. Kitariko (2011) argues that, Safaricom offers total communications solutions to a growing clientele in Kenya. With a subscriber base of over 17 million, Safaricom provides a comprehensive range of services under one roof: mobile and fixed voice and data services on a variety of platforms: Kenya's widest 3G network; a growing fibre optic cable footprint and its most expansive WIMAX presence. Safaricom also pioneered commercial mobile

money transfer globally through MPesa, the most successful such service anywhere in the world.

2.3 Investor Recognition, Reputation and Credibility

Doctors, nurse practitioners, or clinical officers operate most private healthcare facilities in Kenya. Merton (1987) develops an asset pricing model under the assumption that investors invest only in stocks of firms they know about. This model predicts that increase in investor recognition and shareholder base lowers the firm's cost of equity and increases its value. Several studies document that listing on home/foreign exchanges enhances the firm's visibility and its share price (e.g., Kadlec and McConnell (1994), Foerster and Karolyi (1999)). Bancel and Mittoo (2001) report that European CFOs view enhanced visibility and investor recognition as the most important benefit of listing on foreign exchanges.

Brau and Fawcett(2006) in their survey of 336 to compare practice to theory in the areas of initial public offering (IPO) motivation, timing, underwriter selection, underpricing, signaling, and the decision to remain private found strong support for Merton's investor recognition hypothesis. To enhance the company's prestige and visibility and to broaden the shareholder base were identified as the major criteria for both home and foreign exchange of listing. Nearly all CFOs also agreed or strongly agreed that the IPO acts as advertising for the company and increases its reputation/image. The finance managers who tend to value enhanced visibility also tend to agree more that an IPO lowers the cost of financing consistent with Merton model.

Most theoretical models implicitly or explicitly include raising new capital as a motivation for an IPO. Chemmanur and Fulghieri (CF, 1999) model the going public decision in an asymmetric information framework as a trade-off between the option to raise equity financing from public markets versus private sale to a small group of large investors. Their model predicts that firms tend to go public only when a sufficient amount of information has accumulated in the public domain because it lowers the firm's information production costs. The model also implies that the adverse selection cost is a more serious problem for young and small companies that have no track record, and therefore, predicts that firms tend to go public when they are well established, except for firms in high technology industries. Moreover, firms that value enhanced balance of power more also tend to agree more with the notion that an IPO increases financial flexibility reduces cost of capital, and such firms are also more likely to reduce their leverage after going public.

2.4 Better IPO Performance in an Unconcentrated Industry

Studies so far have only indicated a difficult journey for IPOs in concentrated industries. This in effect implies higher chances of success for IPOs in less concentrated industries such as the Health care industry. Hoberg and Qiu (2006) presented strong evidence that the underperformance of some IPO firms, and the concentration premium documented in Hou and Robinson (2005), have common empirical roots. Their unified explanation was rooted in the hypothesis that firms going public in concentrated industries have the flexibility to do so at the optimal time of their choosing, and that this decision is made following the theoretical predictions of Maksimovic and Pichler (2001): when the firm is transitioning from growth to value. In contrast, competitive IPO issuers have little

flexibility because their IPO decision is more likely to be forced by exogenous innovation shocks requiring quick financing as in Schumpeter (1912), or by venture capital financiers demanding quick exit. In turn, the transition from growth to value, which is observed more frequently in concentrated industries, directly implies an increase in systematic risk. Rational asset pricing theory presented in Pastor and Veronesi (2005) explains why these firms “underperform”. This theoretical explanation can also be cast in the language of Myers and Majluf (1984). Observing the decision to go public in a concentrated industry reveals a transition from growth to value. Observing the same decision in a competitive industry is uninformative.

In 2008 Kenya's initial public offering of Kenya's largest mobile service provider; Safaricom was oversubscribed by 532 percent by both local and international investors. The demand was beyond the equity value of the company of 200 billion shillings at the offer price of 5 shillings per share.

2.5 Going Public as a strategic Choice

Maksimovic and Pichler (MP, 2001) model the going public decision as a strategic choice by the firm to gain the first-mover advantage in the product market by enhancing its visibility, reputation, and credibility. They argue that the higher disclosure requirement for exchange listing and public trading of stock increases the confidence and trust of investors, creditors, customers, and suppliers in the firm. However, the firm also incurs costs as it has to disclose sensitive information about its products that may be valuable to its competitors, especially in industries undergoing rapid technological change. Their model implies that the IPO firms are likely to be industry leaders rather than followers in

exchange listing decision and would highly value the capital raising benefits of going public.

In their study, Bancel and Mittoo (2008) concluded that finance managers who tend to agree that an IPO enhances firm's reputation also tend to place higher value on the benefit of external monitoring foreign exchanges. However, few firms agree with the statement that going public forces firms to disclose information that is crucial for the competitive advantage and firms that raise capital in the IPO disagree more strongly with this assumption. Taken together, these results provide support for several implications of the MP model among firms that go public on home exchanges but little support for its main assumption that public listing forces the firm to disclose information that may be crucial to maintain its competitive edge. In Kenya, Safaricom has now re-organized its business into three revenue centres: Financial Services, Enterprise and Consumer business while aligning it with six functional positions. The new organizational structure is fundamentally aligned to Safaricom's strategic direction which leaves the company better positioned in the wake of competitive pressure on voice. (Safaricom, 2011)

2.6 External Monitoring

External Monitoring is viewed as a benefit in some IPO models, but as a cost in others. Several theories suggest that the firm's commitment to meet regulatory and disclosure requirements of stock exchanges increases transparency, and lowers the agency costs between managers and majority shareholders. Jensen and Meckling (1976) argue that increased transparency and market scrutiny facilitates better corporate governance when there is separation between ownership and control. They argue that a publicly listed firm becomes subject to increased scrutiny by analysts and market participants that imposes

discipline on managers for performance. It also facilitates better corporate governance by allowing firms to devise incentives, such as stock option plans, to align managers' interest with those of shareholders. Maksimovic and Pichler (2001), Campbell (1979) and Yosha (1995), on the other hand, argue that enhanced transparency is very costly as it forces the firm to disclose crucial information that may be advantageous to competitors. Pagano and Roell (1998) suggest that monitoring level is higher in the pre-IPO stage as a small group of investors monitor the firms more closely than a large number of small investors. The benefits of external monitoring are also likely to vary across firms, countries and stock exchanges.

2.7 Lessons from India

Apollo Hospitals Group is a healthcare organization that owns and manages a network of hospitals and medical facilities in India. In addition to running 54 hospitals with more than 8,500 beds, Apollo owns and operates clinics, diagnostic centers, and retail pharmacies, and provides healthcare management, consulting, education, training, and telemedicine services to Indians of all income levels. Since 2008, the Apollo Group also operates a network of "Reach hospitals," smaller satellite facilities that operate in underserved regions and offer limited services at discounted rates to people living at the base of the pyramid. The hospital was declared a winner of G20 Challenge on Inclusive Business Innovation by the Group of 20 (the only healthcare organization in the World) for its Reach Hospitals initiative (Granguillhome, 2012). The success behind the Apollo hospitals is largely attributed to the fact that it is a public limited company and the study will seek to find out whether the Apollo hospitals framework is applicable in Kenya.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

The third part of the study discusses the methods and procedures used in the study. The chapter comprise of the utilized techniques for data collection and research methodology. Similarly, also contain a discussion on the used techniques in data analysis as well as the tools used to acquire the said data.

3.1 Research Design:

The key method applied in the study is the use of survey. As compared to other methods survey yield a broader range of information. Surveys are effective to produce information on socio-economic characteristics, attitudes, opinions, motives etc and it proved effective in gathering information from the finance managers of Private hospitals in Kenya which are big enough to go public. Since the past studies and literature reviews focus on the IPOs in general, it is an advantage for the current study to correlate the present situation and identify any literature gaps with special emphasis on the health sector

3.2 Target Population:

The target population for this study was all the private hospitals in Kenya. According to eHealth- Kenya Facilities- Ministry of Public Health and Sanitation, there were 217 private hospitals and facilities in Kenya as at 30th June 2012. The research, intentionally, did not focus on mission and public hospitals. Such hospitals produce public goods that

are not likely to be produced by a for-profit institution, unless, of course, dedicated subsidies exist for these activities.

3.3 Target Sample:

The study was designed to gather relevant data from the finance managers of private hospitals in Kenya which are big enough to go public. According to eHealth- Kenya Facilities- Ministry of Public Health and Sanitation, as at 30th June 2012, there were eight private hospitals in Nairobi with over 50 beds which could be considered as being big enough to go public. The research studied the whole of this sub-population.

The sample size was based on stratified sampling method using bed numbers as the distinctive factor category. Faith based hospitals were not considered in the study due to their perceived not-for-profit inclination

3.4 Data Collection Instrument

Both primary and secondary data was collected. Data for this study was collected through the issuing of structured questionnaires and key informant interviews with finance managers as target respondents. The secondary sources of data include literature review from official publications, research institutions, internet publications and newspapers and periodicals as well as financial and economic journals. Acquiring secondary data was more convenient to use because it is already condensed and organized particularly for comparison with the Indian hospitals that have gone public. Moreover, analysis and interpretation was done more easily.

3.5 Data Analysis and Presentation Techniques

The data collected was analyzed by use of descriptive statistics applying both qualitative and quantitative techniques. Analysis of Variance (ANOVA) was used to analyze the data obtained from the survey. The survey data collection instrument was designed by putting data on scale of 1 to 5 (1=Not Important: 5=Very Important), means and percentages of the responses on the importance of each survey question was calculated and tabulated for reporting and making inferences.

The research opted to use this kind of research considering the desire of the researcher to obtain first hand data from the respondents so as to formulate rational and sound conclusions and recommendations for the study. Measures of Central Tendency such as mean, mode, averages and Standard Deviation were used and the information presented in form of tables, graphs and charts using SPSS. This permitted a flexible and interactive approach

3.6 Validity and Reliability:

Validity and reliability are measures of relevance and correctness. Validity is the accuracy and meaningfulness of influences, which are based on the research results while reliability is a measure of the degree to which a research instrument yields constant results or data after repeated trials (Mugenda and Mugenda, 2003)

The researcher used test-retest reliability technique whereby the instrument was administered twice to a portion of the target population at different time intervals. The researcher then determined how the same respondents react to the same questions at

different times. Only items with similar answers to the same item were used in the study. For content validity, the researcher exposed the instrument for review by the supervisors and other experts.

3.7 Limitations of the Survey Method

While the survey method provides insight directly from decision makers, the method is subject to at least two potential limitations. First, the finance manager may not represent other insiders. The study however makes the assumption that the finance manager is in the best position to understand the IPO process and is generally a high-ranking officer with stock or stock options. Surveying the finance manager is consistent with both the research intent and accepted academic practice (e.g., Trahan and Gitman (1995), and Graham and Harvey (2001)).

Second, sample bias is a possibility especially given that there is limited information available about the private hospitals in Kenya. The research however aimed to make a pathway for further comprehensive studies on the subject of IPOs in the healthcare sector in Kenya. The limitation of resources did not allow for a very comprehensive study at this stage.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.0 Introduction

This chapter deals with the results obtained from the study, analysis and interpretation of the data in view of the objectives of the study

4.1 Funding for Growth Opportunities

Most of the finance managers sampled agree that to finance investment opportunities is the most important benefit for the IPO and exchange listing (Table1). 80% of the sampled hospitals also foresee raising new capital in the IPO and consider this a viable financing alternative. I also found that the hospitals willing to raise capital through IPO in my sample have higher annual average growth rates than those reluctant to go public. As indicated in the chart below, motivations related to investment and financial flexibility rate high at 75% for financing investment opportunities, 75% for increasing financial flexibility and 73% for reinforcing firm's balance of power with bankers

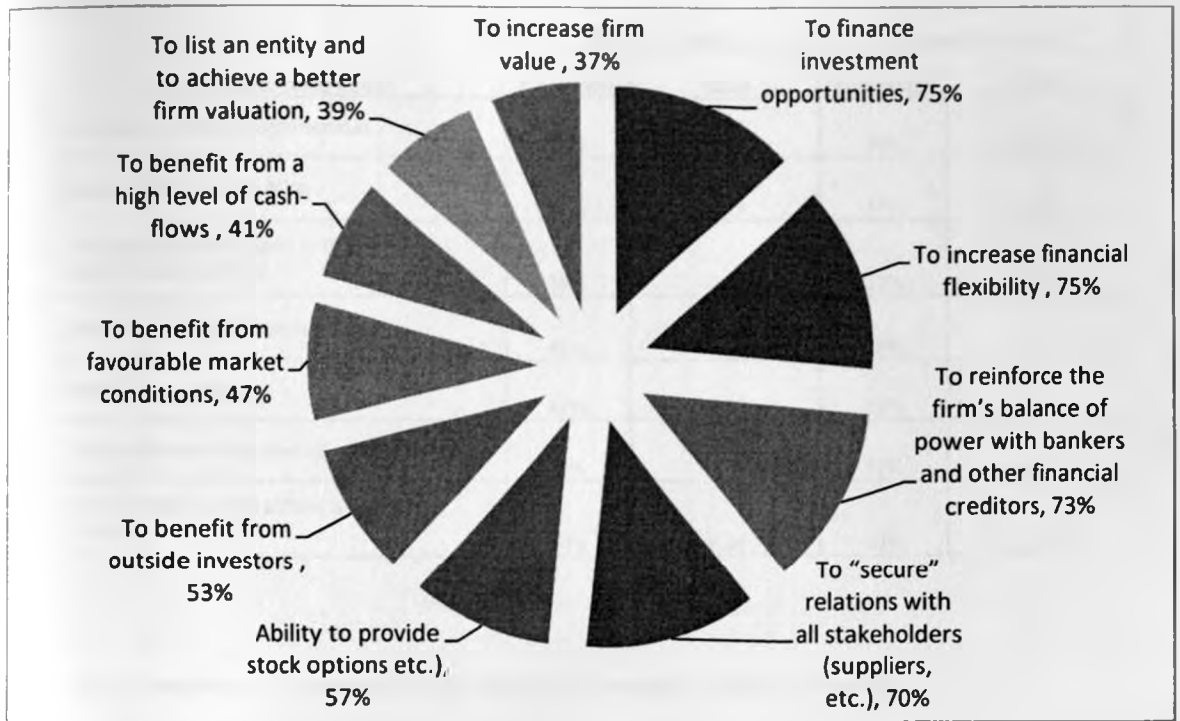


Figure 4. 1: Top Ten Motivations to going Public

Source: Researcher's data

In line with Kim and Weisbach (2005), the study documents that firms plan to use the cash raised in the IPO for several purposes (figure 1). The hospital that expects to report a reduction in leverage after the IPO also assign a higher mean rating to the benefit of raising capital for growth (mean = 1.48 versus 0.57, Table1), indicating that firms may use part of the funds for rebalancing their leverage. Further, finance managers' views on the benefits of raising capital for growth are also strongly positively correlated with their responses to the questions on the reduction in leverage (Q4, corr.=0.65,), the enhanced financial flexibility (Q4/2, corr.=0.66), and the reduction in cost of financing (corr.=0.48,). Most theoretical models implicitly or explicitly include raising new capital as a motivation for an IPO.

Q	Motivation to going public	Raising Capital		Change leverage	
		percentage	mean	Percentage	Mean
1	To finance investment opportunities	70%	1.04	76%	0.63
2	Enhanced financial flexibility	15%	1.39	57%	1.48
3	Enhanced balance of power with bankers and other financial creditors	35%	0.54	57%	0.61
4	Reduction in cost of financing	41%	0.92	24%	0.60
5	Raising new capital	81%	0.19	78%	0.26
6	To benefit from a high level of cash-flows	72%	0.07	51%	0.22
7	To list an entity and to achieve a better firm valuation	60%	0.36	63%	1.04

Table 4. 1: Correlation between raising of capital and change in hospital's leverage

Source: Researcher's data

Further, the finance managers who tend to value the benefit of raising external financing also tend to value the enhanced balance of power with creditors (corr.=0.61 as per Table 1 above), consistent with the model. They argue that an IPO will allow their hospitals to enhance their financial flexibility by generating additional sources of capital to finance its growth and expansion. However, only 30% of the finance managers agree that asymmetry of information was a major deterrent to going public, giving suggestion that the reluctance to go public could be related to market timing notion.

4.2 Investor Recognition, Reputation and Credibility

The study found weak support for Merton's investor recognition hypothesis. To enhance the company's prestige and visibility and to broaden the shareholder base are identified as the least criteria for hospital listing (Tables 2 and 3). Nearly all finance managers also disagree an IPO acts as an advertising for the hospital and increases its

reputation/image (mean = 0.30, or 38% positive response, Figure 3). The finance managers who tend to value enhanced visibility also tend to agree more that an IPO lowers the cost of financing (corr.=0.238), consistent with Merton model.

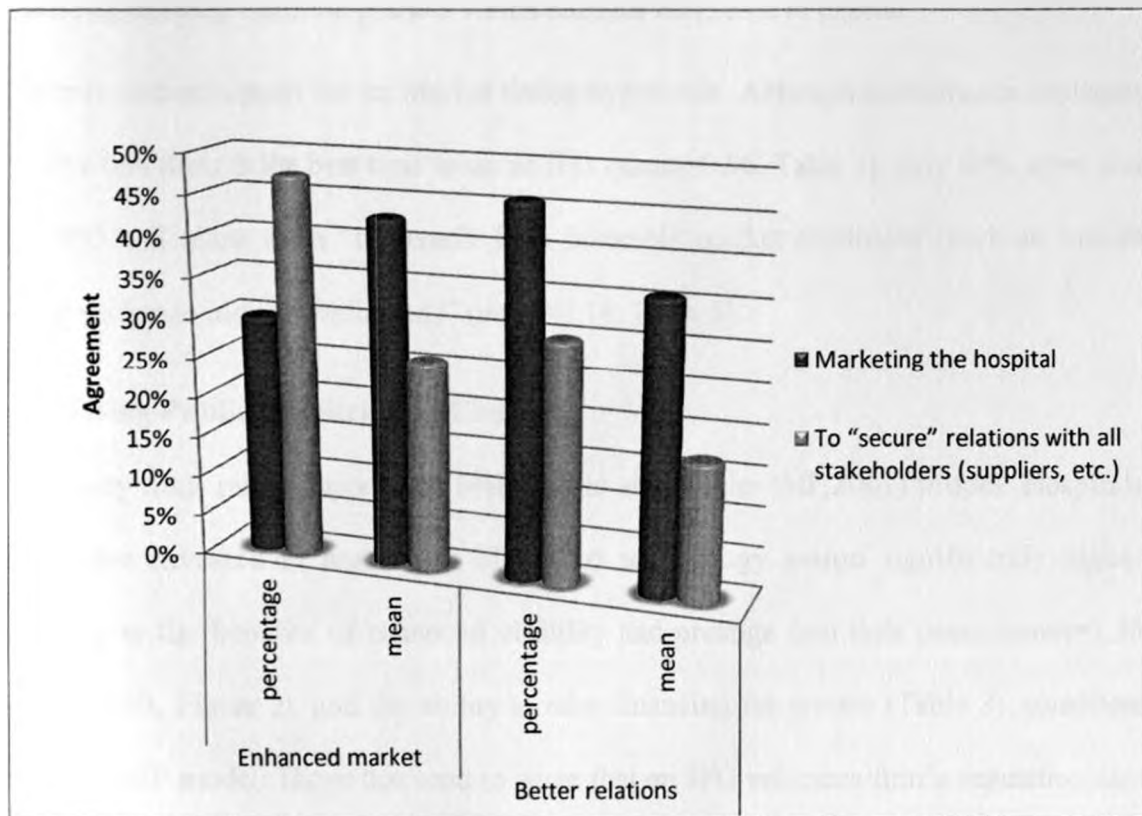


Figure 4.2: Likely effects of IPO on hospital's image

Source: Researcher's data

4.3 Better IPO Performance in an un-concentrated Industry

Although about 60% of finance managers agree that going public in un-concentrated industry will reduce the cost of financing (mean = 0.33, Table 4), this support arises mainly from hospitals that believe there will be a reduction in their leverage after the IPO (mean = 0.86 versus -0.17, Table 3). However, firms that reduce leverage after the IPO also tend to agree more that an IPO reduces cost of financing and enhances balance of power

against creditors which suggests that the reduction in cost of capital may arise primarily from the enhanced power of balance with rather than from achieving an optimal capital structure. The study find some support for argument that firms can obtain cheap financing directly from the market which reduces their cost of capital.

There is modest support for the market timing hypothesis. Although most finance managers believe that there is the best time to do an IPO (mean=0.96, Table 3), only 40% agree that the IPO will allow them “to benefit from favorable market conditions (such as, bullish stock exchange/industry valuation)” (mean=0.14, Table 3).

4.4 Going Public as a Strategic Choice

The study finds mixed support for Maksimovic and Pichler (MP,2001) model. Hospitals that have invested in high state of the art technology assign significantly higher ranking to the benefits of enhanced visibility and prestige than their peers (mean=1.35 versus 0.89, Figure 2), and the ability to raise financing for growth (Table 3), consistent with the MP model. Those that tend to agree that an IPO enhances firm’s reputation also tend to place higher value on the benefit of external monitoring (corr.= 0.20, Table 3). However, few finance managers agree with the statement that going public forces firms to disclose information that is crucial for the competitive advantage and hospitals that may consider raising capital in the IPO disagree more strongly with this assumption (mean = -0.5 versus 0.1, * Table 3). Taken together, these results provide support for several implications of the MP model among hospitals than may consider going public at the Nairobi securities exchange but little support for its main assumption that public listing forces the firm to disclose information that may be crucial to maintain its competitive edge.

4.5 External Monitoring

The finance managers comments also support the view that the main benefit of increased market scrutiny comes in disciplining managers and aligning their interests with the shareholders, consistent with Jensen and Meckling “Pressure on management to perform; Better governance, greater management discipline; Transparency of value; Better monitoring and improved performance; Having the market as a reference for managers, external scrutiny and accountability focuses; Management's attention on value-creating”. The study finds little correlation between firms that consider raising capital in the IPO and their views on the benefits of funding for growth and external monitoring. Only 40% of finance managers agree that going public is a trade-off between private benefits of control and the gains from diversification (mean=0.03, Table 3). Taken together these pieces of evidence suggest that the value of external monitoring depends on the size of the hospital and whether owners want to disengage from business.

4.6 Lessons from India

Apollo Hospitals had walked the path two decades back (1983), followed by Coimbatore's Kovai Medical Centre and Hospital (KMCH) (1990) and Chennai's Devaki Hospital (1992). Fortis Healthcare just joined them in April 2007 while Wockhardt Hospitals Group, joined in 2008. This represents a growth in initial public offering (IPO) that has given a new momentum to growth and expansion of hospital chains in India.

The reason-they all want to expand in a mammoth way: to achieve a pan India presence. Wockhardt Hospitals Group intended to set up multiple hospitals across the country. Apart from its international ventures in South-East Asia, MHS has a slew of acquisitions and green fields in the pipeline. Max Healthcare intends to expand outside the NCR region.

According to Sandeep Sinha, Programme Manager, Healthcare Practice, Frost and Sullivan, South Asia and Middle East, "Estimates suggest that in the next three years, the investment in the healthcare industry in India in the private sector will be at least \$3.5 to \$4 billion, inclusive of major corporate groups, mergers and acquisitions, green field projects as well as new chains. The funds for these are possible only by going public. With India's GDP growing at a pace of eight per cent per annum, the consuming power of the investors has also increased, thus boosting up the IPO market for healthcare. The Ernst and Young report 2007, 'Business of Healthcare: An Industry Diagnostic' clearly mentions that with the advent of corporate hospitals and ambitious expansion plans of the industry, the Debt-Equity Ratio (DER), would be much higher in the future. But to attract more debt, healthcare delivery providers will have to establish the credibility of their business models and bring in higher operational efficiency and profitability for Indian hospitals.

From the evidence gathered from India and review of the hospitals' performance at the stock exchange, there are all indications that the Kenyan private hospitals can actually be listed and record better performances as their peers in this emerging economy.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.0 Introduction

This chapter summarizes the study findings, draws conclusions from the findings, provides recommendations to policy makers and gives suggestions for further research.

5.1 Summary of major findings

Finance managers in private hospitals identify enhanced funding for growth, financial flexibility and external monitoring as important benefits of going public. Most finance managers agree that it is a stage in the firm's life-cycle and perceive benefits to be significantly higher than costs of going public. We also find that motivations of IPO firms differ significantly across private hospitals. Large hospitals consider the enhanced external monitoring as the most important benefit, smaller hospitals value the ability to raise capital for growth, and view the IPO as a vehicle to strengthen their bargaining power with creditors without relinquishing control. The study finds strong support for theoretical models that focus on financial and strategic considerations, such as funding for growth. Moreover, the motivations for an IPO are influenced by the firm characteristics, such as ownership structure, and size as well as by the regulatory environment which should be analyzed in both theoretical models and empirical research on going public decision for private hospitals.

5.2 Conclusions

This chapter's overall conclusion about the motivation for going public among private hospitals is supported by empirical comparisons from other sectors that have questioned the supposition that the profit motive leads to greater efficiency.

In summary, evidence gathered suggests that going public is a viable alternative financing option worth giving a thought since fuelling projected expansions in the health sector is not possible through bank loans and private equity alone; the hospitals will have to secure sources of funding other than patient shilling given the high costs of debt and decreasing support from charities and philanthropists.

On the other hand, given the transformation of health care in Kenya toward price and quality competition that has been witnessed in the last five years, there is anticipated relative growth of the for-profit health sector. This growth is expected to bring challenges and risks which can largely be addressed by going public to enhance performance monitoring and risk management through diversification of ownership as the case is in India.

5.3 Recommendations

The following are two key recommendations based on the result of the study. First, this study provides a useful point of departure for scholars of other health systems to stop focusing more on conventional financing methods and explore the possibility of using IPO financing in Kenyan health sector

Second, empirical evidence on the performance of listed hospitals in other emerging economies other than India is badly needed before a decision can be made as to whether the hospitals in Kenya should go public or not. There is considerable heterogeneity among countries in how care is organized and financed. For example, in developing countries such as Kenya, patient's choice of hospital is very limited.

5.4 Limitations of the study

The study intentionally did not focus on major missions and public hospitals, given that they serve disadvantaged populations across the country. If such hospitals were to go, it would be necessary to invent new organizations to serve these roles, especially given the large numbers of persons who lack health insurance in Kenya. Inclusion of these hospitals in the study however would have provided more comprehensive results given that a large number of big hospitals in Kenya fall into the above two categories.

5.5 Suggestion for Further Research

The study largely focused on the motivation to going public for private hospitals assuming all other factors constant including the fact that hospitals wishing to be listed must first be transformed into corporate. There is need to do further research on this particular area so as to address possible legal bottle necks. There is also need to do further research on the possibility of using non-conventional financing methods for both public and mission hospitals as well.



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APPENDICES

APPENDIX I

Private Hospitals in Kenya which are big enough to go public

Facility Code	Facility Name	Beds
13004	The Karen Hospital	102
13110	Nairobi Hospital	350
13074	The Mater Hospital Mukuru	120
12950	Gertrudes Hospital	85
13115	Nairobi West Hospital	110
12867	Aga Khan Hospital	243
12874	Avenue Hospital	160
13098	MP Shah Hospital(westlands)	94

Source: E-health Kenya (www.ehealth.or.ke/facilities/latestfacilities.aspx)

APPENDIX II: Sample Questionnaires

QUESTIONNAIRE- CRITERIA

What would you consider as the important criteria in listing of hospitals in Kenya?

		Not Important			Very Important	
		1	2	3	4	5
1.	To trade on a large stock exchange	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2.	To trade at a better price/earning multiple	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3.	To support marketing efforts in the country where the firm is listed	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4.	To reduce the cost of debt and equity	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5.	To provide stockownership plans for employees	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6.	To increase shareholder base	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7.	To implement a "natural path" of growth for our firm	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
8.	To facilitate raising capital	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
9.	To facilitate business operations	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
10.	To enhance the company's prestige, image and visibility	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
11.	To create "good relations" with government or local authorities	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
12.	To be recognized by the relevant financial community as a major player	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
13.	To be listed where financial analysts (and other major financial actors) are located	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
14.	To appeal to institutional investors	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
15.	Other reasons	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Respondents were asked to rate on a scale of 1 (not important) to 5 (very important). The study reports the overall mean as well as the % of respondents answers

QUESTIONNAIRE- MOTIVATION

In your opinion, would an IPO allow your hospital:		Not Important			Very Important	
		1	2	3	4	5
1.	To finance investment opportunities	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2.	To increase financial flexibility (generating new financing alternatives)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3.	To reinforce the firm's balance of power with bankers and other financial creditors	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4.	To "secure" relations with all stakeholders (suppliers, etc.)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5.	To sell the company to external shareholders	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6.	To allow founding shareholder(s) to disengage as major shareholder	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7.	To be monitored by outsiders (analysts, investors, etc.) in order to increase the firm value	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
8.	To compensate employees and managers (ability to provide stock options etc.)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
9.	To estimate the market value of the firm	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
10.	To benefit from outside investors who are willing to pay a higher price for the firm's risky cash-flows than the entrepreneur's own valuation of these flows	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
11.	To benefit from favourable market conditions ("bullish" stock exchange/industry valuation)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
12.	To benefit from a high level of cash-flows and the ability to present a favourable business plan	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
13.	To list an entity/business separately and to achieve a better firm valuation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
14.	To pay for future acquisitions with the firm's shares	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
15.	To increase firm value by attracting diversified investors who value shares more than undiversified investors	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Respondents were asked to rate on a scale of 1 (not important) to 5 (very important). The study reports the overall mean as well as the % of respondents answers

TABLE 3: SUMMARY OF KEY FINDINGS

SUMMARY OF KEY IPO MOTIVATION RESPONSES	Important or Very Important		Raising Capital		Change Leverage	
	percentage	mean	percentage	mean	percentage	mean
To finance investment opportunities	75.32	0.90	70.00	1.04	76.00	0.63
To increase financial flexibility (generating new financing alternatives)	75.32	1.00	15.00	1.39	57.00	1.48
To reinforce the firm's balance of power with bankers and other financial creditors	73.33	1.04	35.00	0.54	57.00	0.61
To "secure" relations with all stakeholders (suppliers, etc.)	69.74	0.79	41.00	0.92	24.00	0.60
To sell the company to external shareholders	59.74	0.49	81.00	0.19	78.00	0.26
To allow founding shareholder(s) to disengage as major shareholder	57.89	0.33	72.00	0.07	51.00	0.22
To be monitored by outsiders (analysts, investors, etc.) in order to increase the firm value	56.58	0.47	60.00	0.36	63.00	1.04
To compensate employees and managers (ability to provide stock options etc.)	56.58	0.46	47.37	0.26	30.00	0.17
To benefit from outside investors who are willing to pay a higher price for the firm's risky cash-flows than the entrepreneur's own valuation of these flows	53.33	0.36	1.00	0.19	2.00	0.26
To benefit from favourable market conditions ("bullish" stock exchange/industry valuation)	47.37	0.26	30.00	(0.07)	(11.00)	0.30
To benefit from a high level of cash-flows and the ability to present a favourable business plan	40.54	0.05	(16.00)	0.07	1.00	0.22
To list an entity/business separately and to achieve a better firm valuation	39.47	0.14	(60.00)	0.36	(63.00)	1.04
To pay for future acquisitions with the firm's shares	38.67	0.13	(16.00)	(0.16)	(18.00)	0.04