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**BENEFITS ACCRUING TO COMPANIES LISTED AT
THE NAIROBI STOCK EXCHANGE**

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BY

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D61/P/8796/99**

**A PROJECT SUBMITTED IN PARTIAL FULFILMENT FOR
THE AWARD OF A MASTERS DEGREE IN BUSINESS
ADMINISTRATION (MBA)**

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DECLARATION

I, Njiraini Andrew Ndungu, hereby certify that:

1. Except where due acknowledgement has been made, this project work is mine alone.
2. The project has not been previously submitted in whole or in part to qualify for any other academic award.

Signed.....



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I, Otieno Odhiambo Luther, hereby certify that this project has been presented for examination with my approval as the University of Nairobi Supervisor.

Signed.

.Date.

Tib

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DEDICATION

This project is dedicated to the Source of everything and the one who loves me unconditionally, the Lord Jesus Christ.

To my beautiful and loving fiancée Mary with who I look forward to spending the rest of my life with. c

ACKNOWLEDGMENT

I am greatly indebted to a number of people, without whom this project work would not have been completed. I wish to convey my sincere gratitude to my fiancée, Mary for the patience, support, encouragement and understanding during the long period of working on the project. I also wish to thank Sophie Kioko whose support was very valuable. To my Pastor Ken, who supported to access some of the reading materials.

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I am forever indebted to the many outstanding men and women who by their love and support have blessed me. Special thanks also go my dear mum, whose love enabled me to be who I am.

To all who contributed in any way, GOD BLESS YOU.

ABSTRACT

This study sought to find out the benefits that companies listed at the Nairobi Stock Exchange enjoy. Evidence from research indicates that an increasing number of companies see going public as a way to improve their reputation and social capital with beneficial effects on their capacity to access external resources and opportunities for new entrepreneurial ventures. Previous research has mainly focused on the long run performance of initial public offers. Research in different markets has produced different results. No research has been carried out in Kenya to find out what benefits accrue to firms listed at the NSE, thus the need for this research.

The population covers all companies that were quoted at the Nairobi Stock Exchange as at 30 September 2005. The study makes use of primary data. The data was collected using questionnaires. Questionnaires were subjected to a statistical analysis of frequency, in order to obtain a relative assessment of the extent of the different aspects of the listing benefits and cross-tabulation and in order to check for significant differences across various industry sectors. Factor analysis and principal component analysis were also used.

The research found out that going public allows firms to access external financial resources. The decision to go public improves the liquidity of a Company's shares as well as the scope for diversification by the initial shareholders of the company. Other benefits realised include positive public image and better management of quoted companies. It is clear that companies realise many benefits from listing their shares at the NSE.

The stock exchange must play an increasingly educational role; the Capital Markets Authority as the regulatory agency must alter its approach from the sometimes heavy-handed type of control to a more proactive, creative and supportive role in order to assist in the creation of a more vibrant and forward looking capital market environment. This it can do by seeing itself as a catalyst in development rather than as a traditional regulator of what is a very small market.

More companies should consider listing at the stock exchange and enjoy the benefits that come with listing.

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CHAPTER ONE

1.0 INTRODUCTION

1.1 Background

1.1.1 Meaning and importance of listing at the stock exchange

Listing is the process of taking a privately-owned organisation and making the transition to a publicly-owned entity whose shares can be traded on a stock exchange. It is also referred to as going public which is the process in which a business owned by one or several individuals is converted into a business owned by many. It involves the offering of part ownership of the company to the public through the sale of debt or more commonly, equity securities (stock). A stock exchange is a highly competitive centralized marketplace where individuals and institutions may buy or sell existing corporate securities. Stock exchanges are economically important institutions because they provide investors with homogeneous corporate assets, price information and liquidity.

The fundamental role of a stock exchange is to bring together in one market place providers of capital and organizations that require capital. In Kenya, forty-eight companies are listed at The Nairobi Stock Exchange (NSE). However, The NSE could have a number of new listings in the coming months. Companies that are expected to be listed or have expressed interest in listing include Kenya Electricity Generating Company (KenGen), Equity Commercial Bank, Sarova Group of hotels, Sadolin Paints and outdoor advertising firm, Adopt-a-Light. A number of companies are responding to the tax incentives announced in the June 2005 budget. Newly listed companies are expected to benefit from lower corporation tax of 20 per cent instead of 30 per cent. The tax rebate will run for the first five years of

listing and will apply to companies that have offloaded at least 40 per cent of their shares to the public.

Pagano, Panetta, and Zingales (1998) examine why private firms in Italy go public. Their results suggest that company size and, especially, the industry's market-to-book ratio increase the likelihood of a company going public. Helwege and Packer (2003) use an unusual but interesting sample of private firms (those that file with the Securities and Exchange Commission (S.E.C.)), usually because they have issued public bonds) and show that they are more likely to go public if they have private equity investors. This supports Black and Gilson's (1998) view that stock market listings provide an exit opportunity for professional pre-Initial Public Offering (IPO) investors, such as venture capitalists.

According to some authors, the most important reason for going public is to infuse a significant amount of investment capital into the firm (Arkebauer, 1991). Going public, in fact, allows firms to access external financial resources. These resources can be used either to compensate for a lack of capital or high debt/equity levels, or as means to seize and finance growth opportunity (Harvey, Evans, 1995) and (Maherault, 2000).

Gaia and Davide (2001) combine evidence from a series of preliminary case studies, with the results of^sa survey of 74 Italian IPOs, to investigate important implications of going public like improved visibility and reputation that are usually neglected or presented as side benefits and glossed over. Evidence from their research indicates instead that an increasing number of companies see going public as a way to improve their reputation and social capital, with beneficial effects on their capacity to

access external resources and opportunities for new entrepreneurial ventures. Their study reveals that besides the usual financial motives, the decision to go public is increasingly stimulated by a search for a higher visibility and is seen as an important step in the expansion and reinforcement of the network of relationships that sustains entrepreneurial activity.

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Pagano, Panetta and Zingales (1998) find that going public decreases the average cost of capital, not only because equity is cheaper than debt, but also because the company manages to obtain a reduction on their bank interests after having gone public. A listed company, in fact, is subject to a tighter set of controls both from the regulators and from institutional investors. Listed companies are forced to a greater transparency, comprehensiveness and timeliness of their financial reports. The increased flow of information, then, allows a better assessment of the company's plans and reduces the uncertainty surrounding the company's future, therefore reducing the discount rate applied to the expected future returns.

Roell (1996) concludes that the real reasons why firms go public are "an informative stock price, a more liquid stock, and increased competition among providers of finance."

1.1.2 Benefits to companies that are listed at the stock exchange

(i) Source of Long-term Capital

The stock exchange serves as a valuable source of long-term capital for listed companies. Through the Exchange, a company may raise funds to finance its expansion plans, enhance its competitiveness, and establish an appropriate financial structure. Apart from the issuing and listing of common shares, a listed firm can also raise additional capital by issuing and listing

other types of securities, such as preferred shares, warrants, debentures, and convertible debentures.

In the long run, also, the access to the stock market increases the company's borrowing power and enhances its bargaining power for the reduction of borrowing costs (Krips Newman, 1985).

(ii) Positive Public Image

Because listed companies are scrutinized by regulatory authorities (in Kenya the Capital Markets Authority (CMA)) they generally present a positive public image. To a certain extent, listed companies are perceived to be financially healthy and able to carry out the goal of transparent information disclosure. This image plays an important role in boosting the firm's credibility, increasing its bargaining power, and indirectly building awareness and popularity with regard to its products and services. Moreover, the dissemination of company information through official CMA channels is beneficial to the company in terms of enhanced public acceptance and credibility. These benefits gained are the equivalent of substantial advertising expenses which non-listed competitors have to pay to develop and gain a similar reputation and public acceptance.

(iii) Catalyst for Attracting Foreign Partnerships

In a globalized economy, having a strategic business ally with complementary strength, can greatly enhance the competitiveness of a company. Being a listed company can help attract foreign investment in the firm, opening up opportunities for business expansion and modernization.

(iv) Management Accountability and Professionally-Run organization

Investor confidence, reflected to some extent in the level of stock prices, is a function of the company's standard of operations. The management of a public company must be accountable to their shareholders, who in turn play

a role in ensuring that the company operates in an efficient manner. Shareholders will benefit from the enhancement of the company's operational efficiency.

(v) Employee Pride

Another, generally overlooked, benefit of being a listed company is the pride of its employees. Employee goodwill will emanate if the firm they work for[^] is prospering, has a good image, a good reputation, and is well accepted by the public. Employees' identification with the organization can be an important tool for fostering the firm's reputation.

(vi) Future expansion

Another benefit for being listed is that companies can use their shareholder capital as a means for further expansion. Mergers and acquisitions of businesses

can fast-track a company's growth plans, and cash is rarely the best currency to effect this. By offering shares as the means of acquisition, companies can harmonise the interests of shareholders on both sides of the deal during merger and acquisition negotiations, and enable growth without using precious resources generated internally (in other words, save cash).

1.1.3 Benefits to shareholders of companies that are listed at the stock exchange

(i) Increased Liquidity

Listing on the Exchange generally increases the liquidity of the listed securities. Shareholders will *find potential buyers more easily, as their stocks are now more marketable. The market value of a listed company can be more easily determined and its shares can be accepted as collateral for loans.

(ii) Shareholder Protection

To ensure that the benefits of investors are protected, a vital role of the CMA is to issue rules and regulations with regard to securities trading and information disclosure. These CMA rules and regulations ensure the transparency, sufficiency, and promptness of information disclosure as well as ensure equal access to this information by investors.

(iii) Tax advantages

In Kenya there is no capital gains tax. As such the appreciation in the share price is a gain that is not taxed.

(iv) Exit strategy for early stage investors

Listing provides a mechanism for founders of a company, family interests or early stage investors to exit their investment.

1.2 Problem Statement

Evidence from research indicates that an increasing number of companies see going public as a way to improve their reputation and social capital, with beneficial effects on their capacity to access external resources and opportunities for new entrepreneurial ventures (Marchisio and Ravasi, 2001).

A review of past literature on family-owned companies going public leaves the impression of an underlying assumption: going public is something to do either when family assets can no longer finance growth (e.g. Maherault, 2000) or in order to guarantee continuity to the company when no family members can or want to succeed the previous generation (e.g. Jovenitti, 1998). By focusing on these motives, though, past literature has often depicted going public almost as a reaction to a state of need: if the family lacks the required money or managerial capabilities, then going public allows the company to access deeper pockets and to attract skilled professional managers.

Empirical research on the liquidity gain of listing provides mixed results. Dubofsky and Groth (1984), Fraser and Groth (1985), Cooper et al. (1985) and Sanger and McConnell (1986) report that organized exchanges do not enhance liquidity of stocks. Grammatikos and Papaioannou, (1986) Hui and Heubel (1984), Hasbrouck and Schwartz (1986), on the other hand, conclude that organized exchanges provide a more liquid market for the trading of stocks. Aside from improved liquidity, listing provides information about the future prospects of the firm.

Grammatikos and Papaioannou (1986), Edelman and Baker (1990) and Baker and Edelman (1991) examine the liquidity benefit and conclude that stocks that are already highly liquid show little reaction to listing. This is because exchange listing provides little liquidity benefit to stocks that are highly liquid before listing. Along the same line of reasoning, Grammatikos and Papaioannou (1986b) propose that listing conveys little information about a firm's favourable future prospects if the firm is already performing favourably in the pre-listing period. The low performers, on the other hand, can convey favourable information about their future performance more effectively through listing.

It's because of the above conflicting research findings that this research seeks to find out if indeed there are benefits that accrue to firms listed on the stock exchange. Listing on the stock exchange comes with costs. Such costs include the listing fees and other costs for example due to requirement for audits and dissemination of information. To justify incurring costs, one would expect that there are associated listing benefits.

However it is not clear whether listed companies realize the benefits of being listed at the NSE. No research has been carried out in Kenya to find out what benefits accrue to firms listed at the NSE. The research question is: What benefits accrue to companies listed at the Nairobi Stock Exchange?

1.3 Objective of the Study

- To determine the benefits that accrues to companies as a result of being listed at the Nairobi Stock Exchange.
- To determine the principal factors why companies get listed at the Nairobi Stock Exchange.

1.4 Significance of the Study

The principal goal of all firms is maximization of shareholders' wealth. The formulation and implementation of most policies in the firm are aimed at achieving this goal. This study explores extensively the benefits accruing to companies listed at the Nairobi Stock Exchange. The study will therefore benefit:

(i) *Company executives and policy makers*

In order to meet the principal goal of shareholders' wealth maximization, company executives need to know if they should have their companies listed at the NSE and if so when that should happen. They will know which benefits they should expect to obtain.

(ii) *The Academic community*

This study will provide a body of knowledge on the benefits accruing to companies listed at the Nairobi Stock Exchange. It will bring out the relationship between listed companies and performance of those companies. This is an emerging area which has not been researched on extensively in the past especially in Kenya.

(iii) *Investors*

The objective of all investors is to maximize the returns on their investments. Most investors are risk averse and as such would be comfortable investing where they are assured of a good return. This study will shed light on the benefits accruing to companies listed on the NSE which is important for investors since that is where they have an avenue of making investments.

(iv) *Students of research*

The study will expand their knowledge base and form the basis for further research.

(v) *The public*

The study will create awareness on the issues of listing at the stock exchange and why companies opt for being listed.

CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Why do companies really go public?

Why do firms choose to enter the stock market? Stock market entrants themselves tend to emphasize four different reasons: (i) to obtain new finance; (ii) to enhance a company's image and increase its publicity; (iii) to motivate managers and other employees; (iv) to "cash in" by selling off shares. The deeper question is why firms *go public* to achieve these goals. For example, direct sales of stock and bank loans are alternative sources of funds which could potentially finance new projects or allow the original owners to cash in. Moreover, funds raised through a stock market introduction are often very expensive. Even in the relatively efficient U.S. equity market, a cost of twenty cents per dollar is a reasonable measure of the average, and thirty cents per dollar is common for small firms [see Ritter (1987) and Barry, Muscarella and Vertsuypens (1991)]. The only reasonable explanation for the initial offer is that there are some further future benefits associated with being publicly traded. Indeed, in a recent survey article, R'oell (1996) concludes that the real reasons why firms go public are "an informative stock price, a more liquid stock, and increased competition among providers of finance."

Empirical research on the liquidity gain of listing provides mixed results. Dubofsky and Groth (1984), Fraser and Groth (1985), report that organized exchanges do not enhance liquidity of stocks. Grammatikos and Papaioannou (1986), Marsh and Rock (1986) on the other hand, conclude that organized exchanges provide a more liquid market for the trading of

stocks. Aside from improved liquidity, listing provides information about the future prospects of the firm. Management's decision to seek exchange listing and the independent evaluation of the firm's quality by the stock exchanges provides indications that the firm will prosper in the future. A rational and responsible management will not pursue listing unless it feels confident that the firm can satisfy the continuous standards in the foreseeable future. The decision to list, therefore, carries significant information content. Another motivation for listing is to improve pricing efficiency for the firm's stocks. Stock market efficiency implies that stock prices at any time fully reflect all available information. Investors of listed stocks are expected to receive full and timely information about the firm and its operations.

The benefits of going Public

(i) Overcoming borrowing constraints

According to Pagano, Panetta and Zingales (1998) gaining access to a source of finance alternative to banks (and in the United States, to venture capital) is probably the most cited benefit of going public which is explicitly or implicitly present in most models. The opportunity to tap public markets for funds should be particularly appealing for companies with large current and future investments, high leverage, and high growth.

(ii) Greater bargaining power with banks

Another potential problem with bank loans is that banks can extract rents from their privileged information about the credit worthiness of their customers. By gaining access to the stock market and disseminating information to the generality of investors, a company elicits outside

competition to its lender and ensures a lower cost of credit, a larger supply of external finance or both as highlighted by Rajan (1992).

The prediction here is that companies facing higher interest rates and more concentrated credit sources are more likely to go public and credit will become cheaper and more readily available after the IPO, controlling for profitability and leverage.

(iii) Liquidity and portfolio diversification

According to Pagano, Panetta and Zingales (1998) the decision to go public affects the liquidity of a company's stock as well as the scope for diversification by the initial holders of the company. Shares of private companies can be traded only by informed searching for a counterpart, at considerable cost for the initiating party. Shares trading on an organized exchange are cheaper, especially for small shareholders who want to trade on short notice. As a result, if the initial owners raise money from dispersed investors, they factor in the liquidity benefit provided by being listed on an exchange.

As shown by many market microstructure models, the liquidity of a company's shares is an increasing function of their trading volume, so that this liquidity benefit may be effectively reaped only by sufficiently large companies. This creates another reason to expect a positive relationship between size and the likelihood of an IPO.

Taking a company public provides to its owners opportunities for diversification. This can be achieved directly, by divesting from the company and reinvesting in other assets or indirectly, by having the company raise fresh equity capital after the IPO and acquire stakes in other companies. If diversification is an important motive in the decision to go

public, as in Pagano (1993), we should expect riskier companies to be more likely to go public and controlling shareholders to sell a large portion of their shares at the time of the IPO or soon afterward.

(iv) Monitoring

The stock market also provides a managerial discipline device, both by creating the danger of hostile takeovers and by exposing the market's assessment of managerial decisions. Moreover the shareholders of a public company can use the information embodied in stock prices to design more efficient compensation schemes for their managers, for instance by indexing their salaries to stock price or by offering them stock options as argued by Holmstrom and Tirole (1993) and documented by Schipper and Smith (1986). By contrast, Pagano and Roell (1998) argue that private companies owned by more than one shareholder may be over monitored. If the scale of a planned expansion is very large and thus needs to be financed by many investors, the cost of this over monitoring becomes so large that it is preferable to go public. So this model predicts a positive correlation between the probability of an IPO and the scale of the subsequent investment.

(v) Investor recognition

It is well known that most investors hold portfolios that contain a small fraction of the existing securities often because they simply ignore that a certain company exists. Listing on a major exchange can help to overcome this problem, by acting as an advertisement for the company. Merton (1987) has captured this point in a capital asset pricing model with incomplete information showing that when stock prices are higher the greater the number of investors aware of the company's securities. This theory finds indirect support in the fact when companies already listed elsewhere

announce their decision to list also in New York, their stock yields a 5% abnormal return on average (Kadlec and McConnell (1994)).

The costs of going Public

(i) Adverse selection

In general investors are less informed than the issuers about the true value of the companies going public. This informational asymmetry adversely affects the average quality of the companies seeking a new listing and thus the price at which their shares can be sold (Leland and Pyle (1977)), and also determines the magnitude of the under pricing needed to sell them (Rock (1986) and many others).

As highlighted by Chemmanur and Fulghieri (1995), this adverse selection cost is a more serious obstacle to the listing of young and small companies, which have little track record and low visibility, than for old and large companies. So in the presence of adverse selection, the probability of going public should be positively correlated with the age and /or the size of a company.

(ii) Administrative expenses and fees

Beside the initial under pricing, going public implies considerable direct costs: underwriting fees, registration fees etc. On top of the initial expenses, there are the yearly layouts on auditing, certification and dissemination of accounting information, stock -exchange fees etc. Ritter (1987) has estimated that in the United States the fixed costs equal approximately US\$250,000 and the variable costs are about 7% of the gross proceeds of the IPO.

(iii) Loss of confidentiality

The disclosures rules of stock exchanges force companies to unveil information whose secrecy may be crucial for the competitive advantage such as data about ongoing research and development projects or future marketing strategies. They also expose them to close scrutiny from tax authorities reducing their scope for tax elusion and evasion relative to private companies. Campbell (1979) was first to point to confidentiality as a deterrent from getting funding in public markets. Yosha (1995) has shown that in equilibrium those firms with more sensitive information are deterred from going public if the costs of a public offering are sufficiently high.

2.4 Review of recent studies on listing at the Nairobi Stock Exchange (NSE)

In his survey of Enterprise attitudes towards Kenya's Capital Market, Wagacha (2001) found out that, among the unlisted firms, the majority (66.7 percent) considered the annual fees charged at the NSE to be satisfactory, while half the firms (50 percent) considered application fees satisfactory. It is indicative therefore that the fees at the NSE are thus unlikely to be an inhibiting factor to listing. On efficiency of pricing of shares, which is an important ingredient of any Capital Market, opinion is divided. A cumulative 77.7 percent rated the process from fair to good while 66.7% rated the process from very poor to fair. The view is, however, skewed on disclosure of information, whereby a cumulative 66.7 percent regarded information disclosure as very poor, poor or fair, while only 27.8 percent regarded it as good. It would thus seem to be that disclosure of information is a major impediment to listing at the NSE. Regarding the legal framework, a cumulative 47.1 percent of the respondents regarded it as poor to fair, while another 47.1 percent thought it good. Opinion is thus again equally divided. The regulatory framework was rated good by 44.4 percent of the

respondents while a cumulative 55.6 percent regarded it as very poor to fair. On the margin, therefore, the opinion is that the regulatory framework needs improvement.

In the same study Wagacha (2001) found out that among listed firms, expertise of intermediaries at the NSE was judged by a cumulative 66.7 percent to be poor to fair with only 27.8 percent judging it to be good. The trading system was judged by 50 percent to be poor to fair while 44.4 percent judged it to be good. Only 5.6 percent judged it excellent. Surprisingly, the trading system is thus rated better than the expertise of the intermediaries.

The predominant reason for listing was identified as access to cheaper resources of financing (28.6 percent). Other reasons were suitability of the NSE as a vehicle for trading equity (22.9 percent), while risk sharing was indicated in 14.3 percent of the cases. It is thus clear that the set of firms that list look to the access of non-bank finances as a principal motivation for listing.

Analysts reckon the prospects are promising for companies that are seeking long-term capital through the NSE. They point to the fact that the economy had moved into a high annual absorption gear of over Sh60 billion, with pension funds claiming the largest share, of about Sh20 billion. This means that companies raising capital from the capital markets are assured of adequate availability of funds.

The Post issue operating performance of IPO firms

Bharat and Omesh (1994) investigate the change in operating performance of firms as they make the transition from private to public ownership through initial public offerings (IPOs). They find that IPO firms exhibit a

decline in post issue operating performance, as measured by the operating return on assets and operating cash flows deflated by assets, relative to their pre-IPO levels both before and after industry adjustment. The decline in operating performance of IPO firms however comes with a caveat. These firms exhibit high growth in sales and capital expenditure relative to firms in the same industry in the post IPO period. Thus the declining operating performance of IPO firms cannot be attributed to a lack of sales growth opportunities or cutbacks in post IPO capital expenditures. They also find that IPO firms where entrepreneurs retain higher ownership generally demonstrate superior performance relative to other issuing firms both before and after adjustment for industry effects.

The documented positive relation between managerial ownership retention and post issue operating performance is consistent with several explanations. Primary among these are the Jensen and Meckling (1976) agency hypothesis and the Leland and Pyle (1977) signalling hypothesis. According to the agency hypothesis higher ownership retention by managers reduces their incentives to undertake no value maximizing projects. Leland and Pyle (1977) suggest that by retaining a significant ownership stake in the firm, entrepreneurs can signal project quality since false representations can be costly.

The decline in post issue operating performance is inconsistent with the fact that IPO firms are initially priced at high price earnings (P/E) multiples, implying that investors have expectations of high earnings growth in the future. IPO firms start out with high market to book (M/B) and P/E ratios relative to their industry counterparts but experience a decline in these measures after the IPO. In addition earnings per share (EPS) also decline with time. Overall these results suggest that investors appear to value firms

going public based on the expectation that earnings growth will continue while in actuality the pre-IPO profit margins on which the expectations are formed are not even sustained.

According to Maher and Suret (2001) while there is a consensus that average initial under pricing should and does exist in the IPO market, the aftermarket performance provides conflicting findings with some studies indicating negative, positive or even zero aftermarket performance. In an early study, Ibbotson (1975) does not reject the hypothesis that the abnormal returns in the aftermarket are zero. Recently, Paudyal et al. (1998) have reported that the performance of IPOs in Malaysia is not different from the performance of the market portfolio; the IPOs with higher initial return underperform compared to the market while those with low initial return outperform the market. In addition, they found that the long-term performance of IPOs is positively related to the reputation of the underwriters. If these results are confirmed, the underpricing will explain the underperformance of IPOs. Buser and Chan (1987) report positive risk-adjusted returns (11.2%) in the two years after listing for their sample of 1,078 NASDAQ stocks in the period from 1981 to 1985. Jacquillat and al. (1978) report positive aftermarket returns to IPOs in France during the period from 1966 to 1974. Kim and al. (1995) find that Korean IPOs outperform seasoned firms with similar characteristics. They sustained that "high causality bias" explains the aftermarket underperformance observed in the U.S. and other international findings. For example, about 17% of the sample firms in Ritter (1991) experienced subsequent changes in listing details. The bias is even more severe according to Levis (1993) who reports that 30% of IPOs were de-listed within a 3-year period following their initial listing in the U.K. Kim and al. (1995) also report that the large degree of underpricing in Korea may explain their results. If they exclude the first

month return, they find that the Korean IPOs are characterized by neither over-performance nor underperformance when compared to seasoned firms.

Negative aftermarket returns for IPOs have been reported by Ritter (1991), Aggarwal and Rivoli (1990), Loughran and Ritter (1995), Levis (1993), Aggarwal, Leal and Hernandez (1993), and Firth (1997). Levis (1993) reports long-run underperformance of -22.96% by the third year after the offering in the UK for 712 IPOs between 1980-1988. Aggarwal, Leal and Hernandez (1993) report three-year market-adjusted returns of -47%, -19.6% and -23.7% for Brazil, Mexico and Chile, respectively. Firth (1997) finds that, in average, the new issues in New Zealand underperform the market significantly and the level of long term underperformance is considerably related to profit forecast accuracy, corporate earnings and cash flows, and the growth rate.

Brav and Gompers (1997) compared the performance of venture and non-venture capital-backed IPOs to various benchmarks and found that matching IPOs to similar size and book-to-market firms eliminated the underperformance reported by Loughran and Ritter (1995). They also suggest that we should look more broadly at the types of firms that underperform and not treat IPO firms as a different group. Studies in Australia (Finn and Higham, 1988), Germany (Uhler, 1989), and Hong Kong (McGuinness, 1993) all reported negative aftermarket performance but the abnormal returns they found did not achieve statistical significance, so this is an evidence of market efficiency in the aftermarket.

Clearly, there are international variations in observed performance and further research seems warranted. These international variations are due, in part to the contractual mechanisms and characteristics of companies going

public, which are related to the reasons of the aftermarket underperformance. They are also due to the choice of a performance measurement methodology which directly determines both size and power of the statistical test.

2.6 Reasons for the aftermarket underperformance

Theoretical explanations for the long-run underperformance of IPOs are less than abundant. Aggarwal and Rivoli (1990) establish the possibility that the aftermarket is not immediately efficient in valuing newly issued securities and that the abnormal returns that ensue to IPO investors are the result of a temporary overvaluation by investors in the early trading. This is consistent with the "impresario" hypothesis or the fads hypothesis (Shiller (1990) and Debondt and Thaler (1985, 1987)), which argues that the market for IPOs is subject to fads and that IPOs are underpriced by the investment bankers (the impresarios) to create the appearance of excess demand, just as the promoter of a rock concert attempts to make it an "event". This hypothesis predicts that: the greater the initial return at the IPO date, the greater the degree of subsequent correction of overpricing by investors will tend to be and the lowest subsequent returns should be. -

Miller (1977 and 2000) confirms the divergence of opinion hypothesis to explain the underperformance of IPOs. He suggested that the investors who are most optimistic about an IPO will be its buyers. If there is a great deal of uncertainty about the value of Sn IPO, there will be differences of opinion between the optimistic and the pessimistic investors. As the information flows increase with time, the divergence of expectations decreases and thus the prices are adjusted downwards. Miller predicts that the greater the initial divergence of opinion and uncertainty, and the greater the diminution over time are, the more the security should underperform the market. To test this

hypothesis we expect to see a negative relation between the ex-ante uncertainty and the aftermarket performance. One proxy for ex-ante uncertainty is size. For small firms with little or no operating history it seems clear that there would be a great deal of uncertainty. The age of the firm and of the industry would be other plausible proxies.

Ritter (1991) and Loughran and Ritter (1995) confirm the windows of opportunity hypothesis to explain the aftermarket underperformance. This hypothesis predicts that firms going public in high volume periods are more likely to be overvalued than the other IPOs. This has the testable implication that the high-volume periods should be associated with the lowest long-run returns. This pattern exists indeed in U.S. Loughran and Ritter (1995) affirmed that, for IPOs, the prior rapid growth of many of the young companies makes it easy to justify high valuations by investors who want to believe that they have identified the next Microsoft. The long run investment underperformance documented by Ritter (1991) and Loughran and Ritter (1995) suggests that the decline in operating performance is not anticipated and investors are constantly surprised by the poor performance of IPO firms.

Jain and Kini (1994, p. 1740) point out that the "*successful timing or window-dressing actions taken by issuers may result in potential investors having high, and systematically biased, expectations of earnings growth in the post-issue period*". These authors found that IPO firms exhibit a decline in post-issue operating performance in comparison to their pre-IPO levels. This declining can be attributed to the reduction in management ownership that occurs when a firm goes public, which is likely to lead to the agency problem described in Jensen and Meckling (1976). As a result of the heightened conflict of interest between initial owners and shareholders, the

performance of the firm could suffer as managers have incentives to increase perquisite consumption.

T'eh, Welch, and Wong (1998) show that IPO underperformance is positively related to the size of discretionary accruals in the fiscal year of the IPO. They document that investors may misinterpret high earnings reported at the time of the offering, and consequently overvalue the new issues. Then, when high pre-issue earnings are not sustained, disappointed investors revalue the firm downwards. This scenario suggests that issuers have unusually high income-increasing accounting adjustments and unusually poor post-issue earnings and return performance. Overall, we conclude that the investor's sentiment towards an IPO are an important factor in the underperformance of IPOs, if there is one.

2.7 Going public to raise capital

Kim and Weisbach (2005) have considered the question of whether raising capital is an important reason why firms go public. Using a sample of 16,958 initial public offerings from 38 countries between 1990 and 2003, they have considered differences between firms that sell new primary shares to the public and existing secondary shares that previously belonged to insiders. Their results suggest that the sale of primary shares is correlated with a number of factors associated with the firm's demand for capital. In particular, issuance of primary shares is correlated with higher increases of investment, higher repayment of debt and increases in cash, and more subsequent capital raising through seasoned equity offers. Since 79% of all capital raised through IPOs in their sample is from the sale of primary shares, they conclude that capital-raising is an important motive in the going-public decision.

An initial public offering (IPO) is generally perceived as one of the most important milestones in a firm's lifecycle. It allows the firm to access the public equity markets for additional capital necessary to fund future growth, while simultaneously providing a venue for the initial shareholders to sell their ownership stake. From investors' perspective, an IPO provides a popular choice for investors, although the wisdom of investing in them has been challenged by academic evidence (see Ritter (1991)). It is no wonder that IPOs, especially the large ones, draw so much attention from the press.

Reflecting the importance of the going public decision, the academic literature on IPOs has been voluminous. Yet, perhaps surprisingly, the vast majority of empirical literature has ignored the underlying reasons why firms go public. Instead, it has focused on the underpricing, the long-run performance, and the time-clustering of IPOs (see Jenkinson and Ljungqvist (2001) or Ritter (2003) for surveys). Of the recent theoretical papers on the going-public decision, Chemmanur and Fulghieri (1999) focus on the capital-raising aspect of an IPO while Zingales (1995) and Mello and Parsons (1998) emphasize the sale of executives' shares and eventual change of control. The extent to which these various explanations explain actual firms' reasons for going public is largely unexplored.

The likely reason why there has been so little empirical work addressing the reasons for going public is that the most straightforward way to study the issue would be to compare the characteristics of firms that chose to go public with the firms that remained private. However, such a study would require extensive data on private firms, which generally are not available. One paper that is able to use this approach is Pagano, Panetta, and Zingales (1998) (PPZ), which utilizes a database containing information on 69 Italian firms that went public between 1982 and 1992, as well as a number of private

Italian firms that did not go public but met the listing requirements of the public exchanges during the same time period. These authors conclude that firms in their sample choose to go public not to finance future investments and growth, but rather to rebalance their leverage and to allow the managers to liquidate their positions.

Although these findings may hold for the sample considered by PPZ, it is not obvious that their results automatically extend to other countries and periods. For example, Mikkelson et al. (1997) document that US IPOs are generally followed by a large growth in assets. While Mikkelson et al. contains no explicit linkage between the firms' growth to the capital raising involved with the IPO, this finding is at least suggestive of the view that firms go public so that they can raise public equity capital to finance growth.

The approach adopted by Kim and Weisbach (2005) is to recognize that IPOs differ in the type of shares they offer to the public. Some IPOs sell exclusively new, 'primary' shares; others sell exclusively 'secondary' shares held by insiders, while a third type sells a combination of the two. By comparing the types of IPOs, Kim and Weisbach (2005) are able to provide insight into how the motives for going public vary across types.

They first document some basic facts about the relative proportion of primary and secondary shares offered at the IPO. While firms in most countries issue a majority of primary shares, the proportion varies noticeably across countries, being lowest in European countries and the highest in Asian countries other than Japan.

Next, they test whether the choice of type of shares to issue can explain the differences in normalized increases across firms in a number of accounting variables that are likely to proxy for future growth and investment. Using

both univariate and multivariate tests, they find that the amount of primary offerings are significantly correlated with increases in inventor)', net property, plant and equipment (PPE), capital expenditures and R & D expenditures up to 4 years after the IPO, whereas the amount of secondary offerings have little or no explanatory power. The largest expenditures are on R&D and capital expenditures. They also find that primary offerings are more likely than secondary offerings to lead to reductions in debt levels and increases in cash, which presumably ease potential financial constraints facing the firms.

They conclude that firms offering primary shares appear to be associated with a higher demand for capital than firms offering secondary shares to the public. Since most IPOs offer at least some primary shares and primary shares represent 79% of the value of the shares sold to the public, this suggests that capital-raising is an important motive for going public.

This conclusion is counter to the received wisdom of the profession, which argues that raising capital is not an important reason for going public (see Pagano, Panetta, and Zingales (1998)). The ability of equity markets to provide financing for firms outside the U.S. and the U.K.. has been widely questioned (see La Porta et al. (1997)). Yet, they find that primary offerings are the predominate form of IPO in most of the world, and primary offerings appear to be correlated with a number of factors measuring the demand for capital. These findings are at least suggestive of the idea that firms around the world do in fact use equity markets to raise capital for investment.

These findings call for research on the benefits of listing at the stock exchange derived in specific markets and countries. It's because of this that

this research is geared to finding out the benefits that companies listed at the Nairobi Stock Exchange enjoy.

2.8 Listing and liquidity

Liquidity reflects two elements of the trading process. How fast a desired transaction can be made at the prevailing market price and the price concession that must be offered to sell shares within a given time period. In a perfectly competitive market, there is infinite liquidity since any number of shares can be sold instantaneously at the market clearing price. In illiquid markets, as the number of shares offered by an investor increases, selling them become more difficult (i.e. slower) unless a lower price is asked. The opposite is true for buying, but not necessarily to the same degree.

Researchers often attribute gains in a stock's value associated with listing to the superior liquidity services that the exchanges presumably have, compared with the Over the Counter Market (OTC).Y Amihud and Mendelson (1988) suggest that the liquidity-increasing motive may explain why some firms list on a national exchange, despite the costs and restrictions associated with such listings. According to Groth and Dubofsky (1987), listing may affect a common stock's liquidity because of market differences in competition, distribution of risk, depth of market, access to information, and inventory adjustment. If the exchanges, on balance, provide a better market than the OTC markets for the factors affecting liquidity-', then listing may increase the liquidity and therefore the value of a firm's common stock.

Early research looked at competition in the various markets and its relationship to the liquidity of stocks traded. For example. Hamilton (1976) compared transaction costs for 191 stocks listed and traded on the NYSE with transaction costs on 209 similar, though unlisted, stocks. The study postulated that specialists on the NYSE have scale economies that reduce the

bid-ask spread. OTC transaction costs were greater than exchange costs from the estimated multivariate regression equations because of this competition. Hamilton concluded that lower bid-ask spreads, suggesting improved liquidity, were due to competition and not scale economies.

2.9 What information or signalling does listing convey

Some suggest a relationship between signalling and the valuation implications of listing. That is, listing may contain informational content, also called signalling, which influences the market's evaluation of a stock. Stock exchange listing may signal positive information about a firm. For example, Ying, Lewellen, Schlarbaum and Lease (1977) suggest that listing serves as an expression of managerial confidence in the business prospects of the firm. Further, the independent evaluation and approval by an exchange is similar to the certification function of an investment banker discussed by Booth and Smith (1988). In the context of exchange listing, the certification hypothesis suggests that an exchange can be used to 'certify' that the firm meets certain quantitative and qualitative standards. By approving an application for listing, an exchange risks its reputational capital. Finally, exchange evaluation and approval may signal management's confidence in the firm and thus may have a positive influence on the public's expectations about the firm's prospects.

Listing is a valuable signal only if it conveys information above what the market can derive from the evaluation of other information sources. A valid signal also must have enough costs to avoid dishonest signals. Firms are unlikely to use listing as a mechanism for generating false signals because of the costs of certification. Because firms know the listing criteria, few would bother to apply if they could not meet an exchange's initial and continued

listing standards. Yet, the trade off between the cost of listing and any increase in value may produce different results among firms.

Grammatikos and Papaioannou (1986) examined the informational value of listing on the NYSE independently from other attendant news. They hypothesized that listing should have greater informational value for firms with poor pre-listing performance than for firms with consistently strong performance because the chance is much smaller that the latter firms will face difficulties in satisfying the continuous listing requirements. They defined performance by the reciprocal of the coefficient of variation of the growth rate of a firm's quarterly earnings per share adjusted for stock splits and stock dividends. Their sample contained 88 non financial firms that traded on the OTC market and moved to the NYSE between 1975 and 1981. Their results showed that listing had different informational value for stocks with different performance levels in the pre-listing period. Firms for which listing had high informational value (i.e., firms with low earnings performance) had a significant, positive price reaction during the pre-listing period but a negative price reaction during the post-listing period. Yet, firms for which listing had low informational value (i.e., firms with high earnings performance) did not exhibit any significant market reaction.

News of listing may attract attention to the company in the investment community. Merton (1987) contends that the publicity associated with listing reaches some investors who were previously unaware of the security. Listing also may temporarily increase information availability due to increased interest, which, in turn, may reduce uncertainties about stock performance and riskiness and increase the stock's price. Barry and Brown (1986) view limited information as a source of risk.

Bhardwaj and Brooks (1992) believe that limited information creates greater information asymmetry between outside investors and both managers and insiders resulting from less monitoring of these stocks. Because of these information asymmetries, outside investors in such firms face higher monitoring costs and a greater chance of larger wealth transfers to managers and insiders than do outside investors in well-followed firms. Outside investors of such firms also face higher expected transaction costs. Thus, increasing visibility may benefit firms by enhancing the efficiency of the trading market in the stock.

Baker and Edelman (1991) studied the valuation implications of listing for a sample of 62 common stocks that moved from the NASDAQ system to the American Stock Exchange (AMEX) from 1982 through 1987. Using event study methodology, they tested the joint liquidity-signalling hypothesis, which states that a stock's pre-listing liquidity and performance influences the market's response to news of AMEX listings. The results revealed significant differences between firms with low liquidity and low performance and those with high liquidity and high performance. Firms with low liquidity and low past performance before listing appeared to benefit from AMEX listings. Unlike most prior studies, their results did not find anomalous market behaviour during the post-listing period.

The evidence suggests that listing may signal information about some firms. That is, a firm's pre-listing liquidity and earnings performance influenced the market's response to news of listing. Listing was most valuable to firms with low liquidity and poor earnings performance before listing. Because firms incur additional costs by listing, management should examine the circumstances under which the signalling benefits outweigh the costs of listing.

CHAPTER THREE

3.0 RESEARCH METHODOLOGY

This study investigates the benefits accruing to firms listed on the Nairobi Stock Exchange. It investigates what firms stand to gain by being listed on the Stock Exchange. This is also in recognition of the fact that there are listing costs and as such for firms to incur such costs there are probably related benefits.

3.1 Population

The population of study will cover all companies that were quoted at the Nairobi Stock Exchange as at 30 September 2005 representing the different sectors namely the Agricultural, Commercial and Services, Finance and Investments and Industrial and Allied sectors.

3.2 Data Collection

This study will make use of primary data. The data will be collected using questionnaires. Whenever possible, questionnaires will be addressed to the managing director; alternatively they will be directed to the finance director. A sample of the questionnaire to be used is attached as appendix 1.

3.3 Data Analysis

Questionnaires will be subjected to a statistical analysis of frequency, in order to obtain a relative assessment of the extent of the different aspects of the listing benefits and cross-tabulation, in order to check for significant differences across various industry sectors.

Factor analysis and principal component analysis will also be used. Factor analysis is normally used to uncover the latent structure (dimensions) of a set of variables. It reduces attribute space from a larger number of variables to a smaller number of factors and as such is a "non-dependent" procedure

(that is, it does not assume a dependent variable is specified). It is a mathematical tool which can be used to examine a wide range of data sets.

Principal component analysis (PCA) is amongst the oldest of the multivariate statistical methods of data reduction. It is a method for producing a small number of constructed variables, derived from the larger number of variables originally collected. The idea is to produce a small number of derived variables that are uncorrected and that account for most of the variation in the original data set. The main reason that we might want to reduce the number of variables in this way is that it helps us to understand the underlying structure of the data.

CHAPTER FOUR

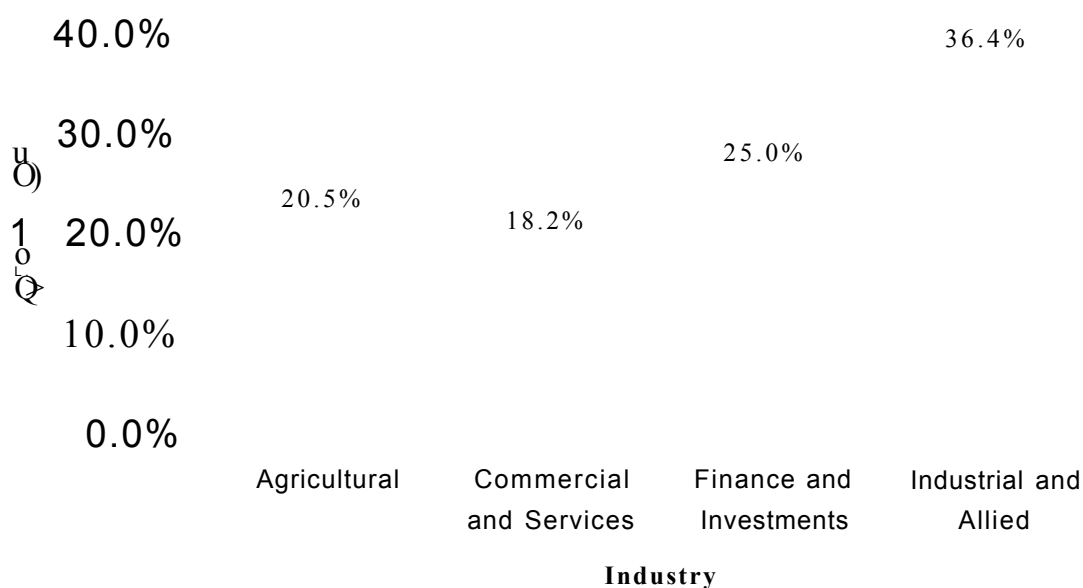
4.0 DATA ANALYSIS AND FINDINGS

4.1 Background information on respondents

Questionnaires were sent out to all listed companies at the Nairobi Stock Exchange during the month of January 2006 and feedback got by the end of February 2006. The response rate was 94 percent. The table and graphs below show the composition of the firms that responded.

Industry	Frequency	Percentage
Agricultural	9	19
Commercial and Services	10	22
Finance and Investments	10	24
Industrial and Allied	15	35
Total	44	100

Response by industry



The questionnaire was made up of two main sections:

Section B - Factors That Influence the Decision to Go Public; and

Section C- Realised Benefits after Going Public.

The opinion of the respondents on the issues was captured on a five point scale and the following scheme was used in interpreting the responses:

Section B:

LABEL	RANGE OF MEANS		
1. Not important	(N I)	1 -2.49	
2. Slightly important	(SI)	1.5-2.49	
3. Moderately important	(MI)	2.5-3.49	
4. Very important	(VI)	3.5-4.49	/J
5. Extremely important	(EI)	4.5-5.00	

Section C:

1. Note At All	(NA)	1.0-1.49;
2. Some How	(SH)	1.5-2.49; and
3. Very Much	(VM)	2.5- 3.00

The measures used in the analysis include:

- (i) The mean or arithmetic averages are used to rank variables. The assumption is that the higher the mean the greater the importance of the item. Frequencies are calculated to test the robustness of means.
- (ii) Measures of dispersion or variations on respondents attitudes. Statistics that measure the spread or variation in the data include the standard deviation, variance, range, minimum, maximum, and standard error of the mean. Standard deviation is used in this study to measure the spread

among the respondents about the mean or their level of concurrence on a particular question.

-) The bivariate correlations procedure computes the pair wise associations for a set of variables and displays the results in a matrix. It is useful for determining the strength and direction of the association between two scale or ordinal variables. In this study correlations are calculated to establish the relationship between the factors that influence the decision to go public; and the relationship between perceived benefits of going public.

Factors That Influence the Decision to Go Public

The means and the median for most of the factors (*except for financing growth*) are not different (see table 1). This suggests that the distribution of responses on variables across respondents is systematic. This is confirmed by small skewness suggesting absence of long tail either to the left or right. This explains why standard deviations for most of the variables are below one (1). We can therefore use mean as a summary statistic and standard deviation as measure of spread of data value or level of agreement amongst respondents.

Firms with growth opportunities tend to go public as a step to sourcing capital or finance required to finance growth (See table 1) this is the most highly rated factor with a mean score of 4.27. The next highly rated factors why companies go public is to increase the company's image and status and increasing liquidity of company shares both with a same mean score of 4.14. Increasing shares liquidity is a desirable attribute because shareholders who want to sell or part of their shares to raise cash will incur relatively low selling transaction costs.

The least rated factor is going public to let shareholders sell part of their shareholding in the firm with a mean score of 3.65. This is expected given that many privately owned firms fear losing flexibility'- and control in decision making. Some disclosure requirements imposed on listed firms are seen to be too intrusive.

The frequency table (see table 2) shows the precise frequency for each category. The frequency table show that -(19) or 43 percent of respondents consider diversification of source of finance (BDSF) as a very important factor for going public, and 17 or 38.6 percent do consider it extremely important. None of the respondents ranked this variable as not important. The information on this factor was missing for one respondent.

Letting shareholders sell part of their shares (BSPS) is ranked by 50 percent of the respondents as very important. Almost 14 percent of the respondents consider BSPS as an extremely important factor in their decision to go public. This low percentage is expected because potential investors would be reluctant investing in a firm whose shareholders are selling of their interest.

It is expected that the growth is financed out of equity rather than debt not surprising (*over 80 percent*) respondents consider financing growth as a very important factor (29 percent as very important and 52.3 percent as extremely important). Increasing visibility^ is not highly rated but largely considered important. Increasing a company image is a factor to be considered. However compared to other factor almost 22 percent of respondent considered it not important only 25 percent of respondent consider it extremely important.

Balancing debt equity is on average a factor to be considered, with most of the respondents (66 percent) ranking it as very important and an above. Nearly 80 percent of respondents consider improving their company's image status at least an important factor. When the respondent were asked whether increasing liquidity of the share was an issue, given that it is suggested as a major factor for going public in the finance literature, the answer expected was that it is *extremely important* for all or most of the respondents. Though 22 percent of the respondents appear not to consider this factor even important, 43 percent consider it extremely important.

Tax benefit (BETB) is considered extremely important by only 23 percent of respondents while 29 percent of respondent consider it as slightly or not important at all. Going public to infuse professional management (BIPM) is not an extremely important to 15.9 percent factor of the respondents, but largely very important (50 percent) on going public.

Does going public enhance corporate governance? Listed companies have to comply with various listing requirements as well as disclosure requirements which leads to improved corporate governance. This factor (BIPG) as a means of enhancing governance lack an agreement with 25 percent of respondent considering it extremely important and the other 25 percent considering it moderately important. Developing strategic alliances is considered very important by 52 percent of respondents.

4.3 Extent to which companies realise benefits after going public

Respondents were asked the extent to which their companies realised a set of benefits. They were asked to state whether they realised the benefit on scale of 1 (*not at all*) 2(*somehow*), and 3 (*very much*). The result (see table 3) show that after being listed, most of the companies realised substantial

reduction on cost of credit (CRACC). At the same time many of the listed firms experienced increased liquidity of company shares (CILCS). The two variables CRACC and CILCS have a mean of 2.59 and a standard deviation of 0.075. That these variables exhibit such low standard deviation suggest that respondents are in agreement on their importance. The listed companies gained substantially in terms of corporate image and improved relationship with suppliers (2.227) and recruitment of new executives and directors.

The frequency table (see table 4) shows the precise frequency for each category. The frequency table show that 59 percent of respondents realised substantially the benefits of reducing their average cost of credit as well as increased liquidity of company securities. 57% of the firms realised very much the benefit of improved corporate image. Improving relationships with suppliers is not a benefit that is realised very much with most of the respondents with only 29% of the respondents realising it very much.

The respondents were also asked to give additional comments on the benefits accruing to firms listed at the Nairobi Stock Exchange. One of the firms stated that listing at NSE provides avenues for growth and development although the current cost of floatation is quite high in terms of stamp duty and rigorous requirements such as audited accounts, list of directors and top executives. Another firm said that the benefits of listing include broader company ownership and growth towards blue chip status.

The findings are in line with a presentation made by Francis Okello. the chairman of TPS Serena. In February 2006, during the Tourism Conference. Mr Okello made a presentation on the benefits of listing: the case of TPS Serena hotels. He said that the overall impact is enhanced liquidity for the Shareholders and market visibility for the company so listed. He also listed

other benefits that Serena realised upon listing as brand awareness/equity and market visibility, better corporate performance, raising capital, corporate governance, and benefits relating to human resources, industry recognition and shareholder benefits.

Brand awareness and market visibility is achieved through the publicity by media and analysts reports on Companies quoted at the stock exchange. Improved corporate image had a mean of 2.568 (see table 3) meaning that it was one of the benefits that most of the listed firms actually realised.

Enhanced credibility and financial strength results in the ability to negotiate favourable lending rates from banks & to raise funds through Commercial Paper. Many listed companies have been able to raise additional capital through rights issue, for example Kenya Commercial Bank and Uchumi Supermarkets. Reduction in the cost of credit had a mean score of 2.59 (table 3) meaning that it was one of the benefits that firms actually realised on going public. 59% of the firms realised the benefit of reduction in their average cost of credit very much after listing (table 4).

Disclosure requirements of NSE & CMA lead to development of best practices in Board & Management process & activities (The push & pull effect). This leads to better corporate governance. However from the responses received, the improvement in corporate governance mechanisms was not given a high rating. The mean score was 2.48 and only 50% of the firms considered it as a benefit that is realised very much after listing (table 3 and 4). This maybe because that by the time most firms go public, their corporate governance mechanisms are already in place. Listing only helps to maintain such mechanisms.

Due to positive company image & prestige listed companies are able to attract and retain some of the most qualified and able human resources in the industry. However, from the respondents the recruitment of new executives, directors and employee pride do not seem to have a high rating as benefits realised after the company goes public. This may be explained from the fact that most companies going public already have the right calibre of staff and the staffs are already proud of such companies.

CHAPTER FIVE

5.0 CONCLUSIONS, RECOMMENDATIONS, LIMITATIONS AND SUGGESTIONS FOR FURTHER STUDY

5.1 Summary and conclusions

Going public allows firms to access external financial resources. These resources can be used either to compensate for lack of capital or high debt/equity levels or as means to seize and finance growth opportunity. In the long run access to the stock market increases the Company's borrowing power and enhances its bargaining power for the reduction of borrowing costs. Firms with growth opportunities tend to go public as a step to sourcing capital or finance required to finance growth. This was the most highly rated factor with a mean a score of 4.27. 56% of the respondents considered this factor to be extremely important. This has been clearly witnessed at the Nairobi Stock Exchange where a number of companies have raised substantial amounts of capital through rights issues. These include Uchumi supermarkets and Kenya Commercial Bank.

The decision to go public improves the liquidity of a Company's shares as well as the scope for diversification by the initial shareholders of the company. The Government of Kenya has used the NSE to successfully divest from previously government owned parastatals. The KENGEN share offer where the government is selling 30% of its shares is one of such. Because listed companies are scrutinised by regulator}' authorities, they generally present a positive public image. To a certain extent listed companies are perceived to be financially healthy and able to carry out the goal of transparent information disclosure. Increasing a company's image.

status and increasing the liquidity of the shares were rated highly as reasons why companies go public.

It is clear that companies realise many benefits from listing their shares at the Nairobi Stock Exchange. However other studies have also found out that there is general lack of awareness and information on the role, functions and operations of the stock exchange. In addition, banks tend to indirectly discourage the stock exchange as a means of raising capital since they play the dual role of being investment advisors as well as lenders. For the stock exchange itself, there is both inadequate marketing of itself as well as lack of a sufficient number of products to attract the investing public.

The stock exchange must play an increasingly educational role; the Capital Markets Authority as the regulatory agency must alter its approach from the sometimes heavy-handed type of control to a more proactive, creative and supportive role in order to assist in the creation of a more vibrant and forward looking capital market environment. This it can do by seeing itself as a catalyst in development rather than as a traditional regulator of what is a very small market.

Recommendations

More companies should take advantage of the stock market to raise capital. Companies can use NSE to raise funds to finance expansion plans, enhance competitiveness and establish appropriate financial structure.

Family owned businesses would benefit more from listing at the NSE. They would benefit from professional management of their companies and ensure continuity when the founders of the companies are unable to run the companies. They would also be able to access capital for financing expansion. Family owned businesses should seek listing at the NSE.

- Due to the success of IPOs where the government has divested from some of the government owned parastatals, the government should use the NSE to divest from some of the public bodies. Such listed companies would enjoy better management, corporate governance practices and raise more capital for growth.
- e
- The Capital Markets Authority and NSE should carry out educational campaigns to educate potential listed companies on the benefits of listing.

5.3 Limitations of the study

- Some of the Companies listed their shares at the Nairobi Stock Exchange many years ago and therefore comparing the companies before and after listing in order to determine the benefits of listing may not be easy.
- In some of the companies, it was difficult to get the senior staff in finance department to fill the questionnaires. The junior staff who filled in the questionnaires did not have a very good understanding of the issues addressed in the questionnaires; hence some of the answers given may not be accurate.
- It is not easy to compare similar companies that are listed and those that are not in order to actually determine the benefits of listing. This is because no two firms will be exactly the same and even if two firms are exactly the same at the time of listing, thereafter, they may not maintain such similarities to enable comparison after some time.
- Some companies consider certain information to be confidential. This means that they may not volunteer certain information that may be necessary for the research. They may tend to create a rosy picture of their firms while in fact that may not be the case.

- Since the questionnaire was targeted at the Finance Directors of the listed companies, it had to be made short to enable them to have enough time to fill it. This may have left out certain important details.

5.4 Suggestions for further study

- The costs of listing at the Nairobi Stock Exchange and the process: are they impediments to listing?
- The attitudes towards listing at the Nairobi Stock Exchange, the case of family owned businesses.
- The benefits of cross listing. The benefits of Kenyan companies being cross listed in other stock exchanges
- A comparison of the costs of raising capital through the Nairobi Stock Exchange and through the lending institutions.
- The impact of the recently announced tax incentives to companies getting listed at the Nairobi Stock Exchange and what further incentives maybe required to have more firms list at the Exchange.

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APPENDIX 1 QUESTIONNAIRE

A REQUEST LETTER TO PARTICIPATE IN RESEARCH

Andrew Ndungu Njiraini
P O Box 40714, 00100
NAIROBI

Date

ADDRESSEE

Dear Sir/Madam

RE: REQUEST TO PARTICIPATE IN RESEARCH ON BENEFITS ACCRUING TO COMPANIES LISTED AT THE NAIROBI STOCK EXCHANGE (NSE).

I am a final year student at the University of Nairobi pursuing studies for the degree of Master of Business Administration (Finance Major). As part of the requirements of this degree, I am required to carry out research in an approved research topic such as the above and present my findings to the Faculty Board for approval.

I enclose a questionnaire for your kind attention. I will appreciate your views on the benefits that companies derive by having their shares listed at the NSF.

This research will be useful to the shareholders of both listed and unlisted companies, management of both listed and unlisted companies, financial analysts, students of research, policy makers and the general investing public. It will bring out the benefits that listed companies enjoy by virtue of having their shares publicly traded.

The findings of the research will be strictly used for academic purposes only. Your views will also be treated with utmost confidentiality and views of individual respondents will not be mentioned without their written consent.

Once you complete the questionnaire, please return it to me using the above address (a self-addressed stamped envelope is enclosed for your ease of return) or simply call me on the telephone number enclosed in this letter and I will arrange to collect the questionnaire from your office.

Thanking you in advance for your kind attention.

Yours faithfully

Andrew Ndungu Njiraini

Enclosures

28 October 2005

c

Dear Sir/Madam

RE: ANDREW NOUNGU N.IIRAINI

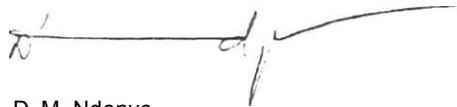
Andrew Njiraini is well known to me and has worked in Deloitte for 7 years, He is a final year part-time student at the University of Nairobi pursuing studies for the degree of Master of Business Administration (finance Major). As part of the requirements of his degree, he is required to carry out research in an approved research topic and present his findings to the Faculty Board for approval

The findings of the research will be strictly used for academic purposes only. Your views will also be treated with utmost confidentiality and views of individual respondents will not be mentioned without their written consent.

Kindly assist him by completing the enclosed questionnaire. Your assistance will be highly appreciated.

Thanking you in advance for your kind attention

Yours faithfully



D M Ndonvc

Enclosures

Audit .Tax. Consulting. Financial Advisory

Deloitte Touche Tohmatsu

P.miH-r, DM NUonyt H. Cudhoke* DC Hoflqos" J.M Kl.mc MM Kfmiu 5 O Onvanqr. j VV W.inQ.u
"Bniiih

APPENDIX 1 QUESTIONNAIRE (CONTINUED)

SURVEY OF BENEFITS ACCRUING TO COMPANIES LISTED AT THE NAIROBI STOCK EXCHANGE

COMPANY NAME:

POSTAL ADDRESS:

NAME OF FINANCE DIRECTOR

YEAR OF FIRST ISSUE OF SHARES AT NSE

SHARES ISSUED ON THE FIRST PUBLIC ISSUE

**B How important were these factors on the decision to go public?
Express your agreement on a 1 to 5 scale, where 1=Not important and
5=extremely important**

1 2 3 4

- 1 To diversify source of finance
- 2 To let shareholders sell part of their shares
- 3 To finance growth and development
- 4 4 To increase the company's visibility
- 5 To balance the debt/equity level
- 6 To improve the company's image and increase its status
- 7 To increase the liquidity of company shares
- 8 To enjoy tax benefits
- 9 To infuse professional management of the company
- 10 To involve new people in the governance
- 11 To help the development of strategic alliances

APPENDIX 1 QUESTIONNAIRE (CONTINUED)

SURVEY OF BENEFITS ACCRUING TO COMPANIES LISTED AT THE NAIROBI STOCK EXCHANGE

C To what extent did your company realise these benefits after having gone public? Express your agreement on a 1 to 3 scale, where 1=not at all and 3=very much

	1	2
1 Increase in sources and tools to raise capital	—	
2 Reduction of the average cost of credit	—	—
3 Recruitment of new executives and directors		
4 Higher efficiency of the governance mechanisms		
5 Incentives to improve performance	—	
6 Improved relationship with clients	—	—
7 Easier management of relationship among shareholders	—	—
8 Improved relationships with suppliers	—	—
9 Incentives to refine tools and procedures of planning and accounting	—	
10 Employee pride in the company	—	
10 Access to strategic alliances	—	—
11 Improved corporate image	—	—
12 Increased liquidity of company securities	—	—

D Please provide any other additional comments that you may have on benefits accruing to companies listed at the NSE

APPENDIX 2: COMPANIES LISTED ON THE NAIROBI STOCK EXCHANGE

- Main Investment Market Segment (MIMs)

Agricultural

1. Unilever Tea Kenya Ltd Ord 10.00
2. Kakuzi Ltd Ord 5.00
3. Rea Vipingo Plantations Ltd Ord 5.00
4. Sasini Tea and Coffee Ltd Ord 5.00

Commercial and Services

1. Car and General (K) Ltd. Ord 5.00
2. CMC Holdings Ltd. Ord.5.00
3. Hutchings Biemer Ltd Ord.5.00-suspended
4. Kenya Airways Ltd. Ord.5.00
5. Marshals (E.A) Ltd. Ord.5.00
6. Nation Media Group. Ord.5.00
7. Tourist Promotion Services Ltd. (Serena) Ord.5.00
8. Uchumi Supermarket Ltd. Ord.5.00

Finance and Investment

- 1 Barclays Bank Ltd Ord. 10.00
- 2 CFC Bank Ltd. Ord 5.00
- 3 Diamond Trust Bank Kenya Ltd. Ord.4.00
- 4 Housing Finance Co. Ltd Ord.5.00
- 5 I.C.D.C Investments Co. Ltd. Ord.5.00
- 6 Jubilee Holdings Insurance Co. Ltd. Ord.5.00
- 7 Kenya Commercial Bank Ltd Ord.10.00
- 8 National Bank of Kenya Ltd. Ord.5.00
- 9 NIC Bank Ltd. Ord.5.00
- 10 Pan African Insurance Ltd. Ord.5.00
- 1 1 Standard Chartered Bank Ltd. Ord.5.00

Industrial and allied

- 1 Athi River Mining Ltd Ord. 5.00
- 2 BOC Kenya Ltd. Ord 5.00
- 3 Bamburi Cement Ltd. Ord.4.00
- 4 British American Tobacco Kenya. Ltd Ord.5.00
- 5 Carbacid Investments Investments Co. Ltd. Ord.5.00
- 6 Crown Berger Ltd. Ord.5.00
- 7 Olympia Capital holdings ltd Ord.5.00

- 8 E A Cables Ltd. Ord.5.00
- 9 E A Portland Cement Ltd. Ord.5.00
- 10 East African Breweries Ltd. Ord. 10.00
- 11 Sameer Africa Ltd. Ord.5.00
- 12 Kenya Oil Company Ltd. Ord.5.00
- 13 Mumias Sugar Company Ltd. Ord.2.00
- 14 Kenya Power and Lightning Co Ltd. Ord.5.00
- 15 Total Kenya Ltd. Ord.S.OO
- 16 Unga Group Ltd Ord.S.OO

c

Alternative Investment Market Segment

- 1 A Baumann and Company Ltd Ord. 5.00
- 2 City Trust Ltd. Ord 5.00 '
- 3 Eaagads Ltd Ord.5.00
- 4 Express Ltd. Ord.5.00
- 5 Williamson Tea Kenya Ltd. Ord.5.00
- 6 Kapchorua Tea Company Ltd Ord. 10.00
- 7 Kenya Orchards Limited Ord 5.00
- 8 Limuru Tea Co Limited Ord. 20.00
- 9 Standard Group Ltd Ord 5.00

APPENDIX 3: LIST OF RESPONDENTS

- Main Investment Market Segment (MIMs)

Agricultural

1. Unilever Tea Kenya Ltd Ord 10.00
2. Kakuzi Ltd Ord 5.00
3. Rea Vipingo Plantations Ltd Ord 5.00
4. Sasini Tea and Coffee Ltd Ord 5.00

Commercial and Services

1. Car and General (K) Ltd. Ord 5.00
2. CMC Holdings Ltd. Ord.S.OO
3. Hutchings Biemer Ltd Ord.5.00
4. Kenya Airways Ltd. Ord.S.OO
5. Marshals (E.A) Ltd. Ord.5.00
6. Nation Media Group. Ord.5.00
7. Tourist Promotion Services Ltd. Ord.5.00
8. Uchumi Supermarket Ltd. Ord.5.00

Finance and Investment

- 1 Barclays Bank Ltd Ord. 10.00
- 2 Diamond Trust Bank Kenya Ltd. Ord.4.00
- 3 Ilousing Finance Co. Ltd Ord.5.00
- 4 I.C.D.C Investments Co. Ltd. Ord.5.00
- 5 Jubilee Insurance Co. Ltd. Ord.S.OO
- 6 Kenya Commercial Bank Ltd Ord. 10.00
- 7 National Bank of Kenya Ltd. Ord?5.00
- 8 NIC Bank Ltd. Ord.5.00
- 9 Pan African Insurance Ltd. Ord.5.00
- 10 Standard Chartered Bank Ltd. Ord.S.OO

Industrial and allied

- 1 Athi River Mining Ltd Ord. 5.00
- 2 BOC Kenya Ltd. Ord 5.00
- 3 Bamburi Cement Ltd. Ord.4.00
- 4 British American Tobacco Kenya. Ltd Ord.S.OO

- 5 Carbacid Investments Investments Co. Ltd. Ord.5.00
- 6 Crown Berger Ltd. Ord.5.00
- 7 Olympia Capital holdings Ltd Ord. 10.00
- 8 E A Cables Ltd. Ord.5.00
- 9 E A Portland Cement Ltd. Ord.5.00
- 10 Sameer Africa Ltd. Ord.5.00
- 11 Kenya Oil Company Ltd. Ord.S.OO
- 12 Mumias Sugar Company Ltd. Ord.2.00
- 13 Kenya Power and Lightning Co Ltd. Ord.S.OO
- 14 Total Kenya Ltd. Ord.5.00
- 15 Unga Group Ltd Ord.5.00

Alternative Investment Market Segment

- 1 A Baumann and Company Ltd Ord. 5.00
- 2 City Trust Ltd. Ord 5.00
- 3 Eaagads Ltd Ord.5.00
- 4 Express Ltd. Ord.5.00
- 5 Williamson Tea Kenya Ltd. Ord.S.OO
- 6 Kapchorua Tea Company Ltd Ord. 10.00
- 7 Kenya Orchards Limited Ord 5.00
- 8 Limuru Tea Co Limited Ord. 20.00
- 9 Standard Newspapers Group Ord 5.00

Table 1

Summary Of Questional™ Responses on Factors That Influence Firms' Decision to Go Public

Factors	Factor Code	N	N	Mean	Mean	Median	Std	Skew-	Mkv-	Man-
		VaSD	Missing		Raiding		Deviabm	less	n un	Mu
To Diversify Source Of Finance	BDSF	43	1	4.21 (VI)	2	4	0.77	-0.71	2	5
To let shareholders see part of their shares	BSPS	43	1	3.65 (VI)	11	4	0.95	-0.99	1	5
To finance growth and development	BFGD	44	0	4.27 (VI)	1	5	0.92	-1.14	2	5
To increase the company's visibility	BICV	44	0	4.00 (VI)	5	4	0.75	-0.35	2	5
To balance debt/equity level	BBDEL	44	0	3.60 (V)	6	4	0.96	-0.66	1	5
To improve the company's image & increase its status	BICI	44	0	4.14 (VI)	3	4	0.80	-0.54	2	5
To increase the liquidity of company's shares	BILCS	43	1	4.14 (VI)	3	4	0.94	-0.83	2	5
To enjoy tax status	BETB	44	0	3.84 (VI)	7	4	0.89	-0.51	2	5
To infuse Professional Management Of The Company	BIPM	44	0	3.66 (VI)	9	4	0.96	-0.72	1	5
To Involve New People In Governance	BIPG	44	0	3.66 (VI)	9	4	1.08	-0.43	1	5
To Help The Development Of Strategic Alliances	BDSA	43	1	3.86 (VI)	6	4	0.99	-1.25	1	5

Frequency Table On Factors That Influence The Decision To Go Public.

		1	2	3	4	5	No	Total	
		NI	SI	MI	V	EI	Answer	*	
		%	%	%	%	%	X		
To Diversify Source Of Finance	BDSF	43	0.00	2.27	13.64	43.16	36.64	2.27	100
To let shareholders see part of their shares	BSPS	43	4.55	4.55	25.00	50.00	13.64	2.27	100
To finance growth and development	BFGD	44	0.00	6.82	11.36	29.55	52.27	0.00	100
To increase the company's visibility	BICV	44	0.00	2.27	20.45	52.77	25.00	0.00	100
To balance debt/equity level	BBDEL	44	2.27	6.82	25.00	40.91	25.00	0.00	100
To improve the company's image & increase its status	BICI	44	0.00	2.27	16.16	43.16	36.36	0.00	100
To increase the liquidity of company's shares	BILCS	43	0.00	6.82	15.91	31.82	43.16	2.27	100
To enjoy tax status	BETB	44	0.00	9.09	20.45	47.73	22.73	0.00	100
To infuse Professional Management Of The Company	BIPM	44	2.27	11.36	20.45	50.00	15.91	0.00	100
To Involve New People In Governance	BIPG	44	2.27	13.04	25.00	34.06	25.00	0.00	100
To Help The Development Of Strategic Alliances	BDSA	43	4.55	4.55	13.64	52.27	22.73	2.27	100

Key NI - Not Important; SI - Slightly Important; MI - Moderately Important
VI - Very Important, EI - Extremely Important

Table 3 - Benefits Realized After Going Public

		Valid	Missing	Ranking	Deviation	n	n	mxr
					nes'			
Increase In Sources and Tools to Raise Capital	CISTC	44	0	2.364 (SH)	9	0.467	0.58	3
Reduction of the average cost of credit	CRACC	44	0	2.591 (VM)	1	0.497	-0.383	3
Recruitment of new executives and directors	CRED	44	0	2.318 (SH)	12	0.561	-0.047	3
Higher efficiency of the governance mechanisms	CHFCG	43	1	2.488 (SH)	6	0.551	-0.400	3
Incentives to improve performance	CUP	44	0	2.406 (SH)	7	0.497	0.343	3
Improved relationship with clients	CIRWC	44	0	2.523 (VM)	4	0.505	-0.117	
Easier management of relationship among shareholders	CFARS	43	1	2.349 (SH)	10	0.573	-0.164	
Improved relationship with suppliers	CIRS	44	0	2.277 (SH)	13	0.565	0.017	
Incentives to refine tools & processes of planting & acc	CIRTP	43	1	2.340 (SH)	10	0.482	0.65/	
Employee Pride In The Company	CEP	44	0	2.386 (SH)	6	0.493	0.483	
Access to Strategic Alliances	CASA	44	0	2.500 (VM)	5	0.550	-0.440	
Improved Corporate Image	CICI	44	0	2.561 (VM)	3	0.501	-0.285	
Increased Liquidity Of Company Securities	OILCS	44	0	2.591 (VM)	1	0.497	-0.383	

Key NA - Not At All, SH - Some How, VM - Very Much

Table 4 Frequency Table Benefits Realized After Going Public

		N	1	2	3	Missing	Total
			NA	SH	VM		
				%	%	*	%
Increase In Sources and Tools to Raise Capital	CISTC	44	0.00	63.64	36.36	0.00	100
Reduction of the average cost of credit	CRACC	44	0.00	40.91	59.09	0.00	100
Recruitment of new executives and directors	CRED	44	4.55	59.09	36.36	0.00	100
Higher efficiency of the governance mechanisms	CHEG	43	2.27	45.45	50.00	2.27	100
Incentives to improve performance	CIIP	44	0.00	59.06	40.91	0.00	100
Improved relationship with clients	CIRWC	44	0.00	47.73	52.27	0.00	100
Easier management of relationship among shareholders	CEARS	43	4.55	54.55	38.64	2.77	100
Improved relationship with suppliers	CIRS	44	6.82	63.64	29.55	0.00	100
Incentives to refine tools & processes of planting & acc	CIRTP	43	0.00	63.64	34.09	2.27	100
Employee Pride In The Company	CEP	44	0.00	61.36	38.64	0.00	100
Access to Strategic Alliances	CASA	44	2.27	45.45	52.27	0.00	100
Improved Corporate Image	CICI	44	0.00	43.18	56.32	0.00	100
Increased Liquidity Of Company Securities	CILCS	44	0.00	40.91	59.09	0.00	100

Key: NA = Not At All, SH = Some How, VM = Very Much

Table 1

Summary Of Questionnaire Responses on
Factors That Influence Finns' Decision to Go Public

Factors	Factor Code	N Valid	N Missing	Mean	Mean Ranking	Median	Std Deviation	Skewness	Mu> rrsjn	Max-Mum
To Diversify Source Of Finance	BDSF	43	1	4.21 (VI)	2	4	0.77	-0.71	2	5
To let shareholders sel part of their shares	BSPS	43	1	3.65 (VI)	11	4	0.95	-0.99	1	5
To finance growth and development	BFGD	44	0	4.27 (VI)	1	5	0.92	-1.14	2	5
To increase the company's visibility	BICV	44	0	4.00 (VI)	5	4	0.75	-0.35	2	5
To balance debt/equity level	BBDEL	44	0	3.80 (VI)	6	4	0.98	-0.66	1	5
To improve the company's image & increase its status	BICI	44	0	4.14 (VI)	3	4	0.80	-0.54	2	5
To increase the liquidity of company's shares	BILCS	43	1	4.14 (VI)	3	4	0.94	-0.83	2	5
To enjoy tax status	BETB	44	0	3.84 (VI)	7	4	0.89	-0.51	2	5
To infuse Professional Management Of The Company	BIPM	44	0	3.66 (VI)	9	4	0.96	-0.72	1	5
To Involve New People In Governance	BIPG	44	c	3.86 (VI)	9	4	1.08	<4.3	1	5
To Help The Development Of Strategic Alliances	BDSA	43	1	3.86 (VI)	6	4	0.99	-1.25	1	5

Table 2

Frequency Table On Factors That Influence The Decision To Go Public.

		1 NI %	2 SI %	3 MI %	4 VI %	5 EI %	No Answp %	ToUI Ik	
To Diversify Source Of Finance	BDSF	43	0.00	2.27	13.64	43.18	38.64	2.27	100
To let shareholders sell part of their shares	BSPS	43	4.55	4.55	25.00	50.00	13.64	2.21	100
To finance growth and development	BFGD	44	0.00	6.82	11.36	29.55	52.27	0.00	100
To increase the company's visibility	BICV	44	0.00	2.27	20.45	52.27	25.00	0.00	100
To balance debt/equity level	BBDEL	44	2.27	6.82	25.00	40.91	25.00	0.00	100
To improve the company's image & increase its status	BICI	44	0.00	2.27	16.18	43.18	36.36	0.00	100
To increase the liquidity of company's shares	BILCS	43	0.00	6.82	15.91	31.82	43.18	2.27	100
To enjoy tax status	BETB	44	0.00	9.09	20.45	47.73	22.73	0.00	100
To infuse Professional Management Of The Company	BIPM	44	2.27	11.36	20.45	50.00	15.91	0.00	100
To Involve New People In Governance	BIPG	44	2.27	13.64	25.00	34.09	25.00	0.00	100
To Help The Development Of Strategic Alliances	BDSA	43	4.55	4.55	13.64	52.27	22.73	2.27	100

Key NI - Not Important; SI - Slightly Important; MI - Moderately Important
VI - Very Important; EI - Extremely Important

Table 3 - Benefits Realized After Going Public

		Valid	Missing	Ranking	Deviation nes*	nun	inuri
Increase In Soiace* and Too** 10 Raise Capital	CISTC	44	0	2.364 (SH)	9	0.487	0.587
Reduction of the average colt of Cfedll	CRACC	44	0	2.591 (VM)	1	0.497	-0.383
Recrutment of new executives and director*	CRED	44	0	2.316 (SH)	12	0.561	-0.048
Hi^wr efficiency of the governance mecharxsms	CHEG	43	1	2.488 (SH)	6	0.551	-0.400
incentive* to Improve performance	CIIP	44	0	2.409 (SH)	7	0.497	0.383
Improved relationship with doeX*	CIRWC	44	0	2.523 (VM)	4	0.505	-0.094
Easier managemerl of relationship among stakeholder*	CEARS	43	1	2.349 (SH)	10	0.573	-0.164
Improved relationship with suppliers	CIRS	44	0	2.227 (SH)	13	0.565	0.011
Incentive* to refine toots & procedures of planmng & acc	CIRTP	43	1	2.349 (SH)	10	0.482	0.657
Enjlloyee Pride In The Company	CEP	44	0	2.386 (SH)	8	0.493	0.483
Access to Stiatefyc Alliances	CASA	44	0	2.500 (VM)	5	0.550	-0.440
Improved Corporate Image	CICI	44	0	2.568 (VM)	3	0.501	-0.785
Inciased Uductty Of Compy Securities	CILCS	44	0	2.591 (VM)	1	0.497	-0.383

Key NA * Not At All SH = Some How. VM « Very Much

Table 4 Frequency Table Benefits Realize After Going Public

		N	1 NA	2 SH %	3 VM %	Missing *	Total %
Increase In Sources and Toots to Raise Capital	CISTC	44	0.00	63.64	36.36	0.00	100
Reduction of the average cost of credit	CRACC	44	0.00	40.91	59.09	0.00	100
Reenjtment of new exeoiives and diredors	CRED	44	4.55	59.09	36.36	0.00	100
Higher efficiency of the governance mechanisms	CHEG	43	2.27	45.45	50.00	2.27	100
incentives to improve performance	CIIP	44	0.00	59.09	40.91	0.00	100
improved relationsp with clients	CIRWC	44	0.00	47.73	52.27	0.00	100
Easier management of letationship among sfaiehotders	CEARS	43	4.55	54.55	38.64	2.27	100
Improved relationship with suppliers	CIRS	44	6.82	63.64	29.55	0.00	100
incentives to refine toots & procedures of pfenng & acc	CIRTP	43	0.00	63.64	34.09	2.27	100
Employee Prnde In Tile Company	CEP	44	0.00	61.36	38.64	0.00	100
Access to Strategic Afcances	CASA	44	2.27	45.45	52.27	0.00	100
Improved Corporate Image	CICI	44	0.00	43.18	56.82	0.00	100
Increased Uductty Of Comory Securities	CILCS	44	0.00	40.91	59.09	0.00	100

Key NA = Not ATA*; SH = Some How. VM = Very Much

	BDSA	CISTC	CRACC	CRED	CHEQ	CIIP	CIRWC	CEARS							
3															
5	4	2	2	3	2	3	3	3	2	2	2	2	2	3	3
2	4	2	2	2	2	2	2	2	1	2	2	2	2	2	2
3	3	3	2	2	3	3	2	2	3	2	2	3	2	3	3
2	2	2	3	2	2	3	3	2	2	2	2	2	2	2	2
2	2	2	3	2	3	2	3	2	2	2	2	3	2	3	2
5	C	2	3	2	3	2	3	2	2	2	2	3	3	3	3
4	5	2	3	2	3	2	3	3	2	2	2	2	3	2	3
3	3	2	3	3	3	3	3	3	3	2	2	2	3	2	3
1	1	3	2	1	1	2	2	1	2	2	2	2	1	3	2
4	4	2	3	3	3	2	2	3	2	3	2	2	2	3	2
3	3	3	2	3	2	2	3	3	2	2	2	2	3	2	3
4	5	2	3	2	2	2	2	2	2	3	2	2	3	2	3
3	4	2	3	2	2	3	3	3	2	3	2	3	3	2	2
4	4	3	3	3	3	3	3	3	2	2	2	3	3	2	3
4	4	2	3	2	2	3	2	2	2	2	2	2	3	3	2
4	4	2	2	2	3	2	2	2	2	2	2	2	3	3	2
5	4	2	2	3	3	2	2	3	2	3	3	2	3	3	3
4	5	2	3	2	3	2	3	2	2	3	3	2	3	3	3
5	5	2	3	3	2	3	3	2	2	3	3	2	3	3	3
3	4	2	3	2	3	2	3	2	2	2	3	3	3	2	2
3	3	2	2	2	2	3	2	3	2	1	3	2	3	3	3
5	5	3	3	3	3	3	2	2	2	3	2	2	2	3	3
4	4	2	2	2	3	2	2	2	2	2	2	2	2	3	3
4	4	2	2	2	2	2	2	2	2	2	3	2	3	3	3
5	4	3	2	3	2	3	2	2	2	2	3	3	3	3	3
2	3	3	2	3	2	2	2	2	2	2	3	2	2	3	3
3	4	3	2	2	2	2	2	1	2	2	2	2	2	2	2
2	1	3	3	2	2	3	3	3	3	3	2	3	3	3	3
3	4	3	3	2	2	2	2	2	3	3	3	2	2	2	2
3	4	2	2	2	2	2	3	2	2	2	3	2	2	2	2
5	4	2	3	2	3	3	3	2	2	3	2	3	2	3	2
5	4	3	3	2	2	2	3	2	2	2	3	2	3	2	2
4	4	2	2	2	3	2	3	2	2	2	2	3	2	3	2
3	3	3	3	3	3	3	2	2	1	2	2	2	2	3	3
4	5	3	3	3	3	2	2	3	2	2	3	3	2	2	3
4	5	2	3	2	3	3	2	3	2	2	2	2	2	2	3
9	5	2	3	2	3	2	3	2	2	2	2	2	3	3	2
2	4	3	3	1	3	3	3	3	2	2	2	3	3	3	3
2	5	3	3	3	3	3	3	2	3	2	3	3	3	3	2
5	4	2	3	3	2	3	2	3	2	2	2	2	2	2	3
4		2	3	2	3	2	2	3	3	3	3	2	2	2	3
4	4	3	2	3	2	2	3	2	2	3	3	3	3	2	2
3	4	2	2	3	2	2	3	2	2	2	2	2	2	3	2
4	4	2	2	2	2	2	2	2	2	3	3	3	3	3	3

Appendix 6

Factor Analysis

Communalities

	Initial	Extraction
BDSF	1.000	.697
BSPS	1.000	.702
BFGD	1.000	.767
BICV	1.000	.530
BBDEL	1.000	.442
BICI	1.000	.732
BILCS	1.000	.442
BETB	1.000	.575
BIPM	1.000	.603
BIPG	1.000	.801
BDSA	1.000	.730

Extraction Method: Principal Component Analysis.

Total Variance Explained

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Vanance	Cumulative %
1	3.679	33.444	33.444	3.679	33.444	33.444
2	2.295	20.863	54.307	2.295	20.863	54.307
3	1.047	9.522	63.828	1.047	9.522	63.828
4	.857	7.787	71.616			
5	.735	6.684	78.300			
6	.708	6.438	84.738			
7	.534	4.859	89.597			
8	.475	4.315	93.912			
9	.327	2.975	96.887			
10	.223	2.026	98.913			i
11	.120	1.087	100.000			

Extraction Method: Principal Component Analysis

Appendix 6

Component Matrix(a)

	Component		
	1	2	3
BDSF	.195	.745	-.323
BSPS	.809	.191	.104
BFGD	.253	.769	-.334
BICV	-.062	.561	.459
BBDEL	.664	.023	.007
BICI	.123	.467	.706
BILCS	.398	.515	-.134
BETB	.606	-.436	.136
BIPM	.765	-.127	-.029
BIPG	.852	-.206	.180
BDSA	.790	-.253	-.203

Extraction Method: Principal Component Analysis
a. 3 components extracted.

Communalities

	Initial	Extraction
CISTC	1.000	.575
CRACC	1.000	.596
CRED	1.000	.515
CHEG	1.000	.647
CIIP	1.000	.569
CIRWC	1.000	.665
CEARS	1.000	.557
CIRS	1.000	.553
CIRTP	1.000	.590
CEP	1.000	.530
CASA	1.000	.685
CICI	1.000	.725
CILCS	1.000	.721

Extraction Method: Principal Component Analysis

Total Variance Explained

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	2.040	15.694	15.694	2.040	15.694	15.694
2	1.912	14.708	30.402	1.912	14.708	30.402
3	1.477	11.360	41.762	1.477	11.360	41.762
4	1.337	10.285	52.047	1.337	10.285	52.047
5	1.160	8.927	60.974	1.160	8.927	60.974
6	.982	7.551	68.525			
7	.917	7.054	75.579			
8	.811	6.238	81.817			
9	.762	5.862	87.679			
10	.502	3.862	91.540			
11	.479	3.684	95.225			
12	.385	2.959	98.183			
13	.236	1.817	100.000			

Extraction Method: Principal Component Analysis.

Component Matrix(a)

	Component				
	1	2	3	4	5
CISTC	.120	-.164	.593	.190	-.382
CRACC	.484	.485	-.333	-.116	-.051
CRED	.455	-.362	.185	.172	-.335
CHEG	.350	.206	-.566	.401	-.027
CIIP	.646	.250	.250	.151	-.066
CIRWC	.028	.775	.042	-.162	-.187
CEARS	.592	-.309	-.155	-.220	-.198
CIRS	-.077	.060	.173	-.521	.491
CIRTP	.318	-.575	.197	-.323	.124
CEP	-.147	.442	.547	.032	-.109
CASA	.454	.401	.431	.034	.361
CICI	-.335	-.069	.128	.729	.244
CILCS	.496	-.152	.022	.299	.601

Extraction Method: Principal Component Analysis, a 5 components extracted.