PARTICIPATION OF PRIVATE SECTOR COMPANIES IN EMERGING CAPITAL MARKETS: A STUDY OF CAPITAL MARKETS IN TANZANIA,

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A Dissertation Submitted in Partial Fulfillment of the Requirements for Award of Degree of Doctor of Philosophy of Mzumbe University.

2011

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We the undersigned, certify that we have read and hereby recommend for acceptance by the Mzumbe University, a thesis entitled **Participation of Private Sector Companies in Emerging Capital Markets: A study of Capital Markets in Tanzania,** in fulfilment of the requirements for award of the Degree of Doctor of Philosophy of Mzumbe University.

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I, Abbi Godfrey Nangawe, declare that this thesis is my own original work and that it has not been presented and will not be presented to any other university for a similar or any degree award.

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DEDICATION

This work is dedicated to my children:

Upendo, Alexander, George and Catherine, with LOVE.

LIST OF ABBREVIATIONS AND ACRONYMS

AIMS	Alternative Investment Market Segment
BOT	Bank of Tanzania
BRELA	Business Registration and Licensing Authority
CFA	Confirmatory Factor Analysis
CFO	Chief Financial Officer
CIS	Collective Investment Schemes
CIT	Confederation of Tanzania Industries
CMSA	Capital Market and Securities Authority
CRE	Central Register of Establishment
DSE	Dar es Salaam Stock Exchange.
EAC	East African Community
EME	Emerging Market Economy
IAS	International Accounting Standards
IMF	International Monetary Fund
IPO	Initial Public Offer
IOSCO	International Organization of Securities Commissions
ISA	International Standards on Auditing
ISIC	International Standard Industrial Classification
LDCs	Least Developed Countries
LuSE	Lusaka Stock Exchange
MIMS	Main Investment Market Segment
MLRA	Multiple Linear Regression Analysis
NBS	National Bureau of Statistics
NSE	Nairobi Stock Exchange
NYSE	New York Stock Exchange
OLS	Ordinary Least Squares
OTC	Over the Counter
SME	Small and Medium Enterprise

SPSS	Statistical Package for Social Scientists
SSA	sub-Sahara Africa
TNBC	Tanzania National Business Council
TNBD	Tanzania National Business Directory
TPSF	Tanzania Private Sector Foundation
TRA	Tanzania Revenue Authority
VIF	Variance Inflation Factors
USA	United States of America
WB	World Bank

ABSTRACT

This study aimed at determining factors influencing participation of private sector companies in Tanzanian emerging capital market. The study answered the question on the relationship between a company's going public decisions on the one hand and going public rules and regulations (which include ordinance compliance requirements, prospectus information disclosure and external monitoring and corporate governance), going public costs, company's confidentiality, company's reputation and credibility, and company's portfolio diversification to allow risk sharing on the other hand.

The testable hypotheses were formulated as follows:

(i) Going public rules and regulations are negatively associated with company's decision to go public;

(ii) Going public costs are negatively associated with company's decision to go public;

(iii) Company's confidentiality syndrome is negatively associated with company's decision to go public;

(iv) Company's reputation and credibility is positively associated with company's decision to go public; and,

(v) Company's portfolio diversification to allow risk sharing is positively associated with company's decision to go public.

The study adopted a survey design using a cross-sectional approach. The sample size comprised of 168 private profit making companies from three regions of Tanzania mainland, namely Arusha, Dar es Salaam, and Kilimanjaro. The three regions were selected because they account for over 61% of all private profit making and non-profit making companies in Tanzania mainland (CRE, 2007). Data analysis used the Statistical Package for Social Sciences (SPSS) software and applied a multiple linear regression analysis (MLRA) model, using the ordinary least square (OLS) estimation technique.

Findings of the study had mixed support for the hypotheses. Four predictor variables which slightly supported the hypotheses are: portfolio diversification to allow risk sharing; external monitoring and corporate governance; company's confidentiality and prospectus information disclosure requirements. Surprisingly enough, company's control variables did not support our hypotheses.

The actual results of the study revealed that, empirical support came from company portfolio diversification to allow risk sharing, prospectus information disclosure requirements, company reputation and credibility and company confidentiality. On the other hand, results revealed there was no empirical support for going public costs, while going public ordinance compliance requirements was only slightly supported.

The study recommends measures which will enhance capital markets policy interventions. First, are measures to be instituted by policy makers to increase supply of and demand for security instruments and to strengthen the regulatory operating capacity. Second, are training and research measures which will enable Capital Markets and Securities Authority (CMSA), in collaboration with Dar es Salaam Stock Exchange (DSE), training and research institutions, to develop and promote new market strategies, such as curricular programmes to enhance the public's awareness of capital markets. Last, but not least, the study recommends strategic measures to private sector companies which will enhance their incentives to save, and mechanisms to channel those savings into further investments.

Finally, the study suggests directions for future research on capital markets participation in emerging markets and Tanzania in particular.

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CHAPTER ONE

PROBLEM SETTING

1.1 Background Information

In the nineteenth century, for the first time in history, many private investment projects were so large that they could no longer be financed by individuals or from retained profits (Hicks, 1969). Technological inventions of industrial revolution, such as the steam engine, had been made before, but their implementation had to wait for well developed financial markets. The industrial society required a financial system in which publicly traded companies could get long-term financing. This was therefore the critical time when capital markets were highly required. A common feature which distinguishes successful companies is investment and particularly sustained investment across a number of time periods. Several studies on investment behaviour have found that investment rates in African manufacturing sector (Tanzania inclusive) are very low, with medium rates close to zero, and that few firms invest on a regular basis (Bigsten et al. 1999). The question is *"Why is this the case?"* Is it because owners and managers fear taking risky investment projects or is it because there are no big investment opportunities which are available in Africa and Tanzania in particular?

In Tanzania, from 1967 when banks and financial institutions were nationalized under Arusha Declaration, the financial system was entirely owned and controlled by the state. The financial system in Tanzania was extremely narrow comprising of the Central Bank, three commercial banks, five deposit insurance funds (DIFs), two insurance companies, two contractual savings institutions and one hire purchase company while neither competition nor adequate supervision existed (Presidential Commission, 1990). According to Carvajal and Eliott (2007), weaknesses revealed in many regulatory systems that are controlled by governments globally are due to lack of independence from government and political process which also appears to be the greatest challenge to the strength of financial regulatory machineries.

The Tanzania government policy during the period, in most cases, was aimed at strengthening public sector with the view of attaining rapid growth, balanced development and more equitable redistribution of incomes. The system was therefore subject to massive financial repression and geared mainly towards the provision of cheap credit to central government, parastatals and cooperatives, with Bank of Tanzania acting as lender of first rather than last resort. The Presidential Commission Report (op cit.) outlines further that, during the period 1967 through 1990, the country's financial system was designed by government to serve as an important instrument, implementing the process of economic and social transformation embarked upon, following the enunciation of Arusha Declaration. This resulted into a number of shortfalls; first, weakness relating to the system of control of the nationalized financial institutions. The government intervened in detailed decision-making, in an ad hoc fashion, often in response to short-term political and economic difficulties or over-riding judgment of managers of the financial institutions. In so doing, eroding consistence of decision making process within the finance sector and undermining financial integrity of the key institutions. Results were a parody of planning, with the system essentially responding to ad hoc short-term pressure rather than implementation of medium to long-term programmes. Secondly, there were no instruments to mobilize medium and long-term savings in the economy, except government loans which were subscribed to mostly by institutions in the public sector. Most funding of long-term investment came either from the government or increasingly from foreign donor assistance.

Restructuring of financial institutions as a result of Arusha Declaration was intended to increase national self-reliance. It, however, failed to do so as the government faced increasing difficulties in raising revenue, capital formation, particularly in relation to large scale projects which became increasingly dependent on foreign loans and grants (The Presidential Commission Report, 1990). A lesson derived from this is that, resource mobilization is only likely to be achieved when all sectors of the economy fully participate in productive activities including the contribution of the private sector. At the broadest level, there are schools of thought which have argued strongly on the existence of a link between financial sector and economic growth. Schumpeter (1934) was an early

proponent of the idea that finance is important for economic development, claiming that the system of allocating capital has a substantial impact on economic growth. King and Levine (1993) suggest a strong correlation between financial development and economic growth. Caprio and Demirgue-Kunt (1997) found that higher levels of long-term finance are associated with higher productivity and growth. Levine and Zervos (1996) suggest that stock markets themselves are correlated with improved economic performance. Entrepreneurs with good ideas are constrained by the amount of capital they can raise (Bhattacharya, 2006). It is universally accepted that no modern economy can flourish without the backing of an efficient financial system because the financial system is, to the economy, what oil is to a motor engine (DSE, 2008). As oil lubricates the engine and enables it to work more efficiently, the financial system plays the role of intermediation by facilitating movement of funds from the savers (surplus spending units) to users (deficit spending units) and thereby increasing the efficiency of economic resources allocation and deployment. These show that, although private companies can use their own money and borrow from family and friends, these are limited sources of capital. Eventually, if they want to make their companies achieve their potentials, they have to fund their growth using other people's money. Big investments in the world have used and will continue to use other people's money. It is on this respect that, equity and corporate bonds financing becomes critical to private companies and economic growth in particular.

1.2 Development of Capital Markets in Tanzania

As noted above, higher levels of resource mobilization is only likely to be achieved when all sectors of the economy fully participate in the economic activities. According to the Presidential Commission Report (1990), Tanzania has a mixed economy in which substantial resources flow through private hands. This includes an extraordinarily diverse range of economic agents; small and medium sized farmers, traders, transporters, craft producers in the informal sector, medium scale industrialists, real estate owners and so on. However, the private sector has had little access to any forms of long-term financing although their activities made a major contribution to important sectors of the economy, particularly in generating employment opportunities.

The underlying reason for development of capital markets in Tanzania may therefore be traced back to a transition of the country's economy from a planned economy, dominated by parastatal enterprises, towards a market economy where the private sector is expected to play an increasingly important role. Thus, the establishment of Tanzania's Capital Markets and Securities Authority (CMSA) in 1994 is considered as a significant achievement in economic and financial reform programmes towards the process of strengthening a private sector-led economy in Tanzania. CMSA's vision of the capital market of future is for companies and others who wish to raise capital to have a logical route for obtaining long-term finance and for investors to feel that their investments are secure and that they are adequately protected (CMSA, 2007a).

Capital markets in the economy are expected to contribute towards: mobilization of savings and risk sharing, encouragement of broader ownership of productive assets and provision of financial resources to private sector companies (CMSA, 2007b). Later, the Dar es Salaam Stock Exchange (DSE) was established in September, 1996 as a result of government policy of transforming the economy from a public sector to a private sector driven economy. Its principal objectives are to provide a market for securities, to facilitate privatization and wide ownership of shares in privatized public enterprises, to assist companies and government to access capital from the public and to transform Tanzanian people towards a culture of savings and investments.

In order to encourage active participation in capital markets by issuers of securities to public, the government has deliberately provided the following incentives (DSE, 2008): Reduced corporate tax from 30% to 25% for the period of three years where an issuer has issued at least 35% of shares to the public, tax deductibility of all Initial Public Offering (IPO) costs for the purpose of income tax determination and withholding tax on investment income made by Collective Investment Schemes (CIS) is final tax. The cost of capital theory states that, the lower the cost of capital in the public versus the private market, the greater the incentive to a company to go public (Scott, 1976).

To-date, the capital market in Tanzania is 16 years old; yet, participation of companies from private sector as issuers of equity shares and corporate bonds to the public is still insignificant (DSE, 2008). The national survey study conducted by the National Bureau of Statistics (NBS) in 2008 revealed that the total number of profit making private companies in all regions of Tanzania mainland is 14,381 (*see Appendix – A2).* According to DSE (ibid), the few companies that have so far utilized Tanzanian's capital markets to mobilize financial resources from the public include: four publicly issued equity shares from TATEPA, TCCIA, DSM Community Bank and NICOL; seven corporate bonds from 3-EADB, PTA, Barclays Bank Tanzania Ltd, Standard Chartered Bank Ltd, and BIDCO Oil and Soap Ltd; and, four CIS funds from Umoja Fund, Invest Life Unit Fund/Wekeza Maisha, Jikimu Fund and Watoto Fund.

There are different theoretical propositions, which are currently debated by different groups of people from the public, trying to explain a number of factors behind low participation of private sector companies in using Tanzanian capital markets. Some of these propositions have already been empirically tested, although further investigation can still be done under different environment, while other propositions are still imaginative assumptions which require empirical investigation.

1.3 Capital Markets Participation Debate in the Tanzanian Economic Context

It is argued that, economic growth in a modern economy hinges on an efficient and effective financial sector that is able to pool domestic savings and mobilize capital for productive projects (Maloti, 2009). Predictably, capital market development in developing economies and, in particular, the sub-Saharan Africa has lagged behind developments in other parts of the world in the past few decades (Odife, Cohn and Okolski 2000). It is further argued that, until substantially more research is done on this subject, the reasons for capital market development in sub-Saharan Africa to have lagged behind such development in other parts of the world shall remain shrouded in mystery (ibid).

In the Tanzanian context, capital market is a new concept particularly to private sector entrepreneurs after decades of centralized economy which was against private share ownership (Diloitte, 2005). In addition to this, it has been well established that there is a general lack of knowledge and familiarity by the public on the basic rules, regulations, functions and benefits of capital markets in national economic activities. According to Deloitte (ibid) evaluation study, it was revealed that Dar es slaam, Arusha and Mwanza (representing only 12% of all regions in Tanzania) are the only few regions which are familiar with some of the potential functions and benefits of capital markets. Following the findings of Deloitte study, CMSA and DSE initiated intensive cross country Public Education Programmes (PEP) focusing on capital markets' rules, regulations, functions and its benefits on the national economy. The study findings revealed further that, there is lack of knowledge amongst Tanzanian privately owned firms on company ordinance compliance requirements specified in the Companies Act, 2002 (cap.212) if the companies prefer going public. However, the impact to potential private sector share issuers is yet to be empirically verified.

Besides lack of knowledge and familiarity to capital markets, the other debated theoretical propositions include: Firstly, fear amongst private sector companies that costs involved in the process of going public are very high thus only big profitable companies can manage. When relating the preposition to going public decision, informational asymmetry cost theory highlights that, going public informational costs may be more serious obstacles to young and small companies than for old large companies (Chammanur & Fulghieri, 1999). In this case therefore, an empirical investigation is required to verify the validity and applicability of this proposition in the Tanzanian economic environment.

The second proposition raised by public is that, there is fear amongst family owned companies that going public will lead to loss of control of their businesses by family members. Family owned businesses in East Africa (EA) rarely give outsiders any opportunity to assist in their development whether in form of management expertise or by providing capital financing (Cohn, 2004). In relating this to going public decision,

company control theory states that, companies owned by family members are likely to value control more than any other attributes in going public decision (Aslam & Kumar, 2007; Boehmer & Ljungvist, 2004). Helwege and Packer (2004) also argue that, management desire for diversification is not at all important in the decision to stay private or go public; instead, maintaining benefits of private control is the most significant factor for large private firms. According to Doidge, Karolyi, Lins, Miller and Stuz (2006), when private benefits of control are more valuable, it is optimal for controlling shareholders to hold more control rights and exert tighter control on the firm. Boehmer and Ljungqvist (2004) study revealed that among the 330 firms that had announced their intention to go public, family firms- which arguably are more concerned about maintaining private benefits of control- are 26% less likely than other firms to go public at a given point in time. In this case therefore, an empirical investigation is required to test the validity of these prepositions and establish the existence and reasons for public doubt in Tanzanian socio-economic environment.

The third proposition argues that, there is desire amongst Tanzanian business entrepreneurs to remain private in order to avoid problems of transparency and demands of public disclosure (Deloitte, 2005). This is also in line with confidentiality theory of going public decision. Campbell (1979) was the first to point 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. Chief Financial Officers (CFO's) identify enhancing visibility and prestige and financing for growth as the most important benefits of an IPO (Bancel & Miltoo, 2007). There are feelings amongst Tanzanian public that, these business entrepreneurs are probably engaged in dubious business deals, such as tax evasion, so that they would rather not go-public in order to avoid legal actions. This again needs an empirical investigation to prove its validity.

The fourth proposition refers to a societal problem which exists by reason of the fact that a large percentage of the more established, successful family-owned businesses are owned by members of non-native population, such as Asians and Arabs. In this

circumstance, there is resistance in going public because of fear that such minority groups may open themselves to a potential loss of economic dominance (Ziorklui et al. 2001). This is in contradiction with growth motives (Brau, Ryan and DeGraw 2007), windows of opportunity (Marchisio and Ravis, 2001) and, capital raising (Kim and Weisback, 2005) theories of going public decision. Family controlled firms view the IPO as a vehicle to strengthen their bargaining power with creditors without relinquishing control (Bancel and Mittoo, op cit). Going public is something done when family assets can no longer finance growth (Marchisio & Ravasi, op cit.). However, this has to be proved with sufficient empirical evidence within the Tanzania economic context.

Last, but not least, Tanzanian government bonds have become increasingly popular to individual and institutional investors because they are perceived to be risk free (BOT, 2001). It was therefore expected that with the establishment of a Credit Information Bureau (CIB), more corporate bonds would be sold to the public, which seems to be not yet feasible (Mushi, 2006). There is need, therefore, to investigate factors inhibiting issuing of corporate bonds from private sector companies to individuals and institutional investors in Emerging Market Economies (EMEs), and Tanzania in particular.

The decision to go public is so complex that no single model can hope to capture all of the relevant costs and benefits (Pagano, Panetta and Zingales 1998). Although, the currently raised public theoretical prepositions reviewed above can hardly be nested in a single model, however, one can develop a set of testable predictions from them.

1.4 Statement of the Research Problem

Capital markets referred in this study are markets for long-term financial assets whose maturity extends beyond one year. They are financial assets which are held over a long period of time and need not be redeemed by the issuers. The common instruments included in capital markets are shares, bonds and units in a collective investments scheme (CIS). Shares are equity which represents part-ownership of the stake in a company. Bonds are debts advanced to the issuer which may be a company, a government or

municipality, with a defined maturity and interest (coupon) payment. Units are collective investment schemes with partial ownership in various CIS investments.

Theories of going public suggest that small firms go public primarily to raise capital for growth, and family controlled firms view going public as a vehicle to strengthen their bargaining power with creditors without relinquishing control (Bancel & Mittoo, 2007). Control theory literature suggests that private companies whose controlling shareholders enjoy private benefits of control are less likely to go public. Yosha (1995) argues that in equilibrium those firms with more sensitive information are deterred from going public if costs of a public offering are very high. Literature also reveals that when corporate governance is extremely stringent and leaves a company's manager little autonomy, the company would prefer private ownership because managers will consider public company governance to be two intrusive (Yosha, ibid). According to cost of capital theory, the lower the cost of public capital versus private capital, the greater the chances of a private firm to go public (Scott, 1976).

Transforming a private company into a public company and, in particular, a listed public company seems not to be an attractive proposition. To go public, a firm is expected to have a successful business model that is going to survive over a long period of time, accompanied by people with business sense (Maug, 2001). It can therefore be argued that, it is the vision of management, more than anything else that determines a company's decision making. However, one of the possible problems of private sector companies has to do with corporate culture. Going public is a transformation of corporate culture and cultural change is extremely difficult. Once a company makes the decision to go public, it should immediately start to change to a going public structure.

Going public process transforms a company so that it begins to act and behave like a public company. However, there are several contradicting empirical study results explaining the factors influencing private sector companies' going public decisions. One of the empirical studies was conducted by Pagano et al. (1998) which revealed that, companies go public not to finance future investments and growth but rather to rebalance

their leverage and allow managers to liquidate their positions, while Boehmer and Ljungquist (2004) study revealed that, companies prefer going public when there is uncertain about their future profitability. We anticipate that many private company owners may view the possibility of their companies going public as the ultimate dream that requires years of hard work, expressed in terms of wealth, prestige, recognition and power. To others, the dream may represent a nightmare – something to be feared and avoided at all costs, even at the expense of restricting growth and potential future prospects of their companies. The conventional wisdom on going public is that it is a rational decision for a growing firm looking for new capital to fund investment. But many potential companies in emerging markets like Tanzania are still staying private.

The primary advantage a company stands to gain through IPO is access to equity financing which does not have to be repaid and does not bear any interest charge. In fact, the Tanzanian Government has deliberately provided incentives to encourage active participation in capital markets by issuers of securities to the public. Despite the advantages that companies can realize from going public and the fact that the government is willing to forego all this revenue, the number of companies from private sector participating actively in the market is still insignificant (DSE, 2008).

Apart from contradictions revealed from the empirical study results as already reviewed above (Pagano et al. 1998 and Boehmer and Ljungquist, 2004), there are also contradictions as to what the public feels about private company's going public in Tanzania with comparison to what the theory states. The theoretical propositions reviewed in the previous section which are still not empirically investigated are raised by different groups of people including private sector companies. These theoretical propositions as reviewed in the previous section include: lack of knowledge and familiarity on basic rules and regulations in going public, fear amongst private and particularly family owned companies that costs involved in going public are very high, desire amongst Tanzanian business entrepreneurs to remain private in order to avoid problems of transparency and demands of public disclosure as required by company ordinance compliance requirements if a company decides to go public, and, fear amongst

non-native population that they may open-up themselves to a potential loss of economic dominance.

Capital markets participants in Tanzania which include regulators, brokerage firms, operators, professional advisors, issuers and investors, academicians, and researchers may be unaware of plausible factors that induce decisions of private sector companies to go public. More specifically, they may be unaware of persisting factors that may inhibit qualified companies from going public. Thus, despite the available theoretical and empirical literature on going public decision, it is now 16 years since financial reforms were initiated in Tanzania and yet, participation of companies from private sector as issuers of equity shares and corporate bonds to the public is still insignificant. Out of 14,381 private profit making limited companies registered in Tanzania mainland (*see Appendix – A2*), only 7 companies have issued equity shares and corporate bonds to the public (DSE, 2008). According to Deloitte, (2005), 12 potential private sector companies indicated that they were interested in listing their securities on the DSE in due time. So far, none of these companies has listed their securities.

This study is, therefore, related to several other reviewed research studies which have tested the same theories of company's going public decision. However, the study is considered to be unique since it intends to test current theoretical propositions raised by the public within Tanzanian socio-economic environment as an emerging capital market as well as the contradictions existing amongst different empirical study results on going public decision.

The general doubts and feelings raised by public in the on-going debate and contradictions in the reviewed empirical study results on the factors inhibiting companies going public decisions, is an indication that there is still a gap in knowledge. This therefore, underscores the fact that it is the right time to conduct an empirical investigation to establish the sources and reasons behind these contradicting issues and determine the real factors influencing companies' going public decision in Tanzania. The aim is to contribute in filling the gap in knowledge by focusing on the main research

question: *what factors influence participation of private sector companies in emerging capital markets?* Specifically, the study intends to determine the extent to which going public rules and regulations, costs, and, company ordinance compliance requirements are associated with a private sector company's decision to go public in Tanzania.

1.5 Research Questions

1.5.1 General Research Question

The main research question which is addressed by this study is: What factors influence participation of private sector companies in emerging capital markets of LDCs?

1.5.2 Specific Research Questions

Specifically, the study intends to answer the following questions:

(i) To what extent are the going public rules and regulations associated with private sector companies' decisions to go public in Tanzania?

(ii) To what extent are the costs of going public associated with private sector companies' decisions to go public in Tanzania?

(iii) To what extent are compliance requirements of Companies Ordinance (Cap.212) of 2002 associated with private sector companies' decisions to go public in Tanzania?

1.6 Research Objectives

1.6.1 General Objective

The main objective of the study is to determine factors influencing participation of private sector companies in emerging capital markets.

1.6.2 Specific Objectives

More specifically, the study intends to determine the extent to which:

(i) Going public rules and regulations influence private sector companies' decisions to go public in Tanzania;

(ii) The cost of going public influence private sector companies' decisions to go public in Tanzania;

(iii) The compliance requirements of Companies Ordinance (Cap.212) of 2002 influence private sector Companies' decisions to go public in Tanzania.

1.7 Tentative Propositions with Regard to Going Public Decisions

Theoretically, this study was guided by the following tentative propositions:

First, based on the going public rules and regulatory requirements, companies with sensitive information or companies operating in industries where the value of non-disclosure and confidentiality is greater (e.g. high tech firms) are less likely to go-public. *This means that, private companies would prefer to remain private to avoid the going public rules and regulations requirements such as: information disclosure requirements.*

Second, besides the initial under-pricing of shares, going public for private companies in emerging market economies implies other considerable direct costs, including professional fees and listing fees, certification and accounting information, and preparation, printing and release of prospectus. Such considerable costs linked to the decision to go public assume that, *the probability of going public for companies in emerging market economies should be positively related to company's size.* This assumption is in line with the going public costs theory raised by Pagano et al. (1998).

Finally, public companies have a wide range of growth opportunities open to them than private companies (Mensah, 2003). Public companies may offer their companies' shares to the public to be traded on the stock market. These offer benefits in terms of greater access to finance. But this comes at a price in form of more rigorous regulatory requirements. Such requirements which are aimed at building-in special safeguards for investors include: Formation of public companies and all matters relating to issuance of securities, rights of shareholders, prospectus' contents, obligations of directors and governance issues. These tougher demands affect everyone connected with the company including: the company itself, its directors, its shareholders, and its advisers. We assume therefore, *that private companies will go public if they find regulatory requirements are providing a conducive and friendly going public process environment*.

The global focus of the study aims at providing empirical evidence on factors influencing participation of private sector companies in emerging capital markets as issuers of equity shares and corporate bonds; thereby, contributing to the role of capital markets in the growth of the economy and society in general.

1.8 Significance of the Study

Results of the study are expected to reveal factors influencing participation of private sector companies in Tanzanian capital markets to finance long-term investment projects. After all the theoretical predictions have been tested, the study is expected to provide valuable information that would contribute in filling the existing knowledge gap on the extent to which going public environment which comprises of: going public rules and regulations, costs, and company ordinance compliance requirements is associated with private sector company's decision to participate in the emerging capital markets. Practically, the results of the study are expected to provide increased awareness, knowledge, and working skills to the following market stakeholders: market regulators, operators, professional advisors, public financing market participants (share issuers and investors), academicians and researchers on factors inhibiting participation of private sector companies in emerging capital markets and Tanzania in particular.

Results of the study are therefore considered useful because they will enable market stakeholders to take appropriate action within their areas of interest, and this will not only increase the number of active market participants but also the quality of products and services offered. More specifically, the results will enable the public in general and family and non-family owned private companies, in particular, to acquire the right empirical evidence and knowledge on the benefits they stand to gain if they convert their private companies into public companies.

1.9 Structure of the Thesis

This thesis has six chapters. Chapter one is designed to guide the research process by setting forth research problems, defining objectives, outlining research investigative questions, significance of the study and providing tentative explanation of the research assumptions. Chapter one therefore, provides a critical base which links other five chapters as illustrated in the main phases of the research in Figure 1.1 on page 16.

Chapter two reviews the study research environment starting with definition of key features of the research and challenges facing emerging market economies (EME). The chapter also reviews economic and financial sector reforms in sub-Sahara African countries followed by current business and financing environment to the private sector in Tanzania. Finally, overview of the existing financial markets system and capital markets development in Tanzania is provided.

Chapter three is on literature review which contains definitions of important key concepts used in the study, followed by a detailed review of the essential links between private companies' going public and economic growth. The chapter also provides a detailed review of theories of going public decision and going public legal and regulatory framework in Tanzania. Finally, it provides a review of empirical studies on going public decisions and a detailed research framework, and then presents study hypotheses.

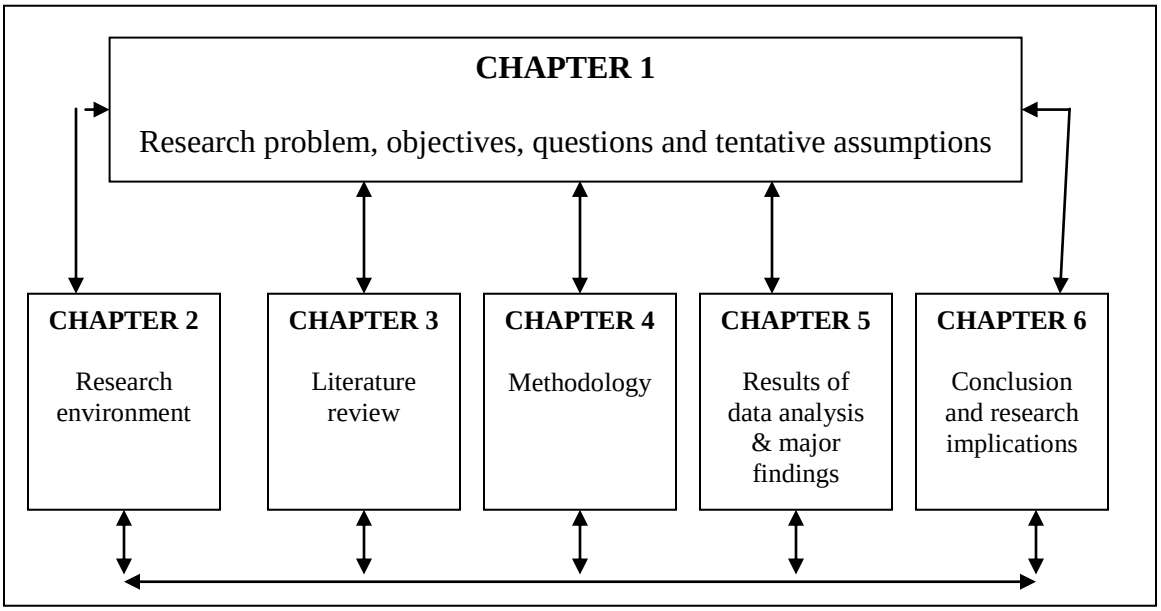
Chapter four is research methodology which outlines the adopted methodology used to test theories of private companies' decision to go public. It provides a detailed research design strategy used to determine the extent of association that exists between going public environment and a private sector company's decision to go public. In addition, the chapter discusses data collection methods which include defining target population and sample size, questionnaire administration, data collection procedures and response pattern. It also focuses on operationalization of the study variables in order to pave way for smooth analysis of the collected data, followed by data processing, analysis and presentation. The essence of this section is to provide a way on how data collected from the survey will be processed and analysed in order to determine the extent of association

between going public environment and a private sector company's decision to participate in capital markets. Finally, the chapter provides statistical and methodological quality control measures of reliability and validity used in the study, followed by the approach used to test research hypotheses with the intention of determining the extent of association among the study concept variables.

Chapter five presents study findings, starting with overall statistics of respondents presented in the form of cross-tabulation, followed by descriptive statistics for construct variables. The chapter also presents data analysis correlations between dependent and explanatory variables, followed by regression analysis which is carried out using six separate research equations for each of the three testable hypotheses.

Chapter six presents a conclusion and suggestions for future research studies. It also presents the contribution of the study to the going public decision theories. More specifically, it presents the study's contribution in filling the existing knowledge gap on factors inhibiting private sector companies' participation in emerging capital markets and, particularly, the Tanzanian capital markets. It also provides practical implications of the study to policy makers, private sector companies, and training and research institutions. Finally, the chapter highlights the study limitations, followed by possible areas of interest for future research on capital markets participation in emerging market economies.

Figure 1.1 Structure of the thesis



Source: Author

CHAPTER TWO

RESEARCH ENVIRONMENT

2.1 Emerging Market Economy

Emerging market economy (EME) is a term coined in 1981 by Antoine, W. van Agtmael from International Finance Corporation of the World Bank. An emerging market economy, sometimes known as developing market economy, is defined as an economy with low-to-middle per capita income. EME is commonly used to describe business and market activities of countries. Such countries are characterized as transitional, meaning they are in the process of moving from a closed to an open market economy while building accountability within the system. In an emerging market economy, a country is embarking on economic reform programmes that will lead it to stronger and more responsible economic performance levels, as well as transparency and efficiency in capital markets. According to Agtmael (2007), EME countries constitute approximately 80 percent of the global population, representing about 20 percent of the worlds' economy.

One key feature of EME is the increase in both domestic and foreign investments. A growth in investment in a country often indicates that the country has been able to build confidence in the local economy. According to World Bank report (2007), the rise of emerging market economies has changed the traditional view of development particularly, in the area of private investment (local and foreign). Thus, investing in EMEs is no longer associated with the traditional notion of providing development assistance to poor nations but considered as a business investment opportunity.

EMEs are, however, still facing big challenges that come from fundamental problems associated with their traditional economic and political systems in their effort to create an open market economy and ensure sustainable development. In this, EME countries have to redefine the role of government in the development process and to reduce government's undue intervention. Also they have to address the problem of corruption

which may seriously distort business environment and impede the speed of economic development. An even more challenging task for EMEs is to complete the structural reform programmes within their financial, legal and political systems so as to guarantee a disciplined and stable economy that is relatively free of political disturbances and interference.

2.1 Economic and Financial Sector Reforms in sub-Saharan Africa (SSA)

From 1970s to 80s, SSA economic performance was disappointing since much of the region was unable to break way from paths of negative or low per capita income growth, high inflation and fiscal deficits, and balance of payments difficulties, which in some countries, culminated into political unrest (Rweymamu, 2003). In some countries, such as Tanzania, Mozambique and Angola, the financial sector was entirely owned by the state. The financial sector was strongly dominated by banking institutions, which supplied only a limited range of products. The exception was South Africa and to a certain extent, Zimbabwe which had a large and developed stock market. By 1980s, most countries had no choice but to accept economic, financial and political conditionality reforms prescribed by multilateral financial institutions. The objective of reforms was to restructure their economies and restore macroeconomic balance (Reinhart & Tokathidis, 2003).

2.2.1 Economic Sector Reforms in SSA

In 1990s, most of SSA countries accepted and implemented broader market oriented reform programmes by adopting Structural Adjustment Programmes (SAP). These programmes aimed at correcting macroeconomic imbalances under the auspices of the Washington consensus. The implementation of SAP reform programmes, which were supported by the World Bank, the IMF and donor community recorded positive results in SSA countries though they differed widely between countries due to issues of design, execution, monitoring, and policy coordination in the programmes. The implemented reform policies focused mainly on: stabilization of fiscal and monetary arrangement; liberalization of domestic markets, foreign trade and financial sector; expansion of the private sector; and rehabilitation of economic and institutional infrastructure. However,

the success of economic and financial reforms depends largely on political will of the leadership because it involves all stakeholders. The winners would support reforms, while losers will frustrate the reform process.

2.2.2 Financial Sector Reforms in SSA

Financial sector reforms have been and continue to be among the key pillars of IMF and World Bank Structural Adjustment Programmes in Africa. According to Mowatt (2001), the objectives of reforms are to build more efficient, robust and deeper financial systems, which can support the growth of private sector enterprises. Lagoarde-Segot and Brian (2006) argue that, countries embarking on financial reforms usually bear two objectives in mind: first, to raise the level of saving and investment, and second, to improve allocation of investment resources, consistent with certain economic and social objectives. Financial sector reforms in SSA region have mainly been motivated by the financial repression paradigm promulgated by McKinnon (1973) and Shaw (1992) hypothesis regarding government failures in the sector. Hence, the objective of financial sector reforms was to reduce or reverse this repression. While low interest rates facilitate government borrowing, they discourage saving and financial intermediation, leading to credit rationing by the banking system, with negative impacts on quantity and quality of investment and hence on economic growth (Mwenga, Mwangi and Ngola 1990).

According to Camen (1996), financial sectors in many SSA countries were heavily regulated, with much of their services geared towards servicing public sector deficits, leading to crowding-out of the private sector; serve short-end of the financial market; and, face limited innovations, with many of them dominated by oligopolies. Nissanke, Aryetey, Hettige and Steel (1995) argue that, the financial system facilitates saving and efficient allocation of these savings to investments and, in the process; it plays an important role in reducing risks and transformation of maturities in the saving–investment nexus.

The relationship between interest rates and savings levels in developing countries is however controversial. The Keynesian view is that, the relationship between interest rates

and savings is insignificant and may be more applicable in developing than developed economies (Ikhide, 1996). Most of the financial sector reform programmes undertaken by developing countries have assumed that higher interest rates will lead to higher savings, and, therefore, higher levels of investment. In the long-run, interest rates are predicted to fall as output increases. According to Melanie (1994), savings in developing countries are likely to be affected by many other factors, such as income, political stability, and, investors' confidence.

Macroeconomic stability is generally regarded as a prerequisite for successful financial liberalization. Liberalizing interest rates in an environment of high inflation for example, can make the goal of positive real interest rates difficult to achieve. Furthermore, high levels of government debt may crowd out private sector access to credit, and hence private sector investment. Therefore, the need for effective regulation and supervision is higher in liberalized financial regimes than in an environment of heavy state control. According to Rwelamira (1993), the financial sector reforms taking place are a part of development strategies which are a result of the changing attitude towards the role of private sector in the development of SSA economy. However, despite the extensive financial sector reforms that have taken place, SSA financial systems still face severe inefficiencies, illiquidity and thinness (Senbet, 2005). According to him, the intended goals of capital mobilization and allocation of capital to growth areas are not fully realized.

A particularly interesting outgrowth of these financial sector reforms has been a surge of interest in the establishment of capital markets and their rapid proliferation in recent years (Senbet, ibid). EAC countries have recognized the importance of the private sector and have committed to crafting a common strategy to develop the sector as an engine of economic growth (Byam et al. 2002). However, the key task confronting policy makers in the EAC is the removal of bottlenecks to private sector development in order to ensure the eventual emergence of a more diversified economic base. One of the key areas that require attention is improving access to financial services, especially among private sector entrepreneurs, through well organized and functioning regional capital markets.

2.2.3 Capital Markets Development in SSA Economy

A capital market does not exist for its own sake. One of its principal functions is to provide finance for long-term investments by enterprises (Byam et al. ibid). However, enterprises will have demand for capital only if there are profitable investment opportunities of which they can take advantage. Without a robust economic and policy environment within which enterprises can thrive, there will be few companies willing to raise funds on the capital market in Africa. In such circumstances, capital markets will remain small and underdeveloped.

Africa is emerging as the best investment destination for equity investment, compared to other emerging capital markets in Asia and Latin America (Mwanza, 2007). According to him, notwithstanding the inefficiencies associated with most African capital markets, the return on investment in most of them is quite impressive sometimes exceeding the performance of well developed and efficient markets like United States of America (USA) and Japan. Zimbabwe, for example, with all its tribulations, managed to give a return on equity investments of more than 1,200 percent in year 2006/07, beating the abnormal rate of inflation of about 1,086 percent. Moreover, Egypt posted the highest returns in the world, with the main market index gaining 162 percent in US dollars in 2004 and 2005 consecutively. According to Inyangete and Warsame (2000), stock markets growth and reform are important components of financial liberalization in all African economies and the growth of stock exchange in Africa can potentially improve the source of capital for African firms, enhancing the monitoring of firms and thereby reducing agency costs and ultimately cost of capital.

At early stages of its establishment, Demirguc-Kunt and Levine (1996) found out that, most capital market indicators are highly correlated with the banking sector development and countries with well-developed capital markets tend to have well-developed financial intermediaries. Kapumba (2000) argues that, vast amounts of investment needed to lift Africa out of poverty will not come from donors; neither will it come from the banking system which characteristically specializes in lending at short end of maturity spectrum. In an economic environment characterized by uncertainty, capital markets provide

functions beyond capital mobilization and allow for risk allocation and risk sharing among market participants. For example, risk sharing allows high risk, yet high return projects to be undertaken; otherwise, such projects would be rationed out of the market, and, hence, leading to value destruction and ultimately decline in economic performance. For investors looking for a place to diversify their investments and differentiate on returns, Africa offers a greater potential than other emerging markets in the world.

African countries should not only look at high rates of return as a point of attracting investors, but also work on mending their countries' political terrain, combat corruption and improve the way for private sector to conduct business. The challenge facing most African governments, particularly those from sub-Sahara, is how to create a stable and attractive economic environment for investors. Such an environment will be conducive for capital mobilization by both domestic and foreign private investors in the emerging Africa capital markets. Thus, challenges facing many SSA countries in developing efficient capital markets are, indeed, enormous but success in establishing such markets can prove much more rewarding for many SSA countries like Tanzania that are direly in need of development of their own capital markets required to support sustainable growth and development.

A survey of the existing literature shows that various factors affect the development of capital markets in developing countries. Demirguc-Kunt and Levine (1993) categorized key factors as: institutional (regulations, information disclosure, transparency rules and trading costs); traditional (market capitalization, amount of new capital raised through stock offerings, number of listed companies and turnover); and, asset pricing (efficiency with which a market price risks and the degree of integration into world markets).

2.3 Economic, Political and Financial Sector Reforms in Tanzania

From 1960s to 1970s, Tanzania implemented policies of self-reliance and protectionism, which entailed the state taking the leading role in national development. These included extensive compulsory villagization (Ujamaa), nationalization and price controls. Nationalization of privately owned companies since 1967 and creation and management

of state owned enterprises was based on the infant industry considerations and the thinking that the state was in a better position to guide society towards sustainable development. The justification for nationalization of private firms and extensive involvement of state in productive activities aimed at making the state control negative externalities, exploit economies of scale and operate firms at officially optimal level (BOT, 2001). However, the outcome proved otherwise for Tanzania because, state owned corporations turned out to be inefficient.

According to Bank of Tanzania's Report (2001), state owned enterprises operated as natural monopolies and since their managers were subject to poor incentive mechanism, they performed poorly. At the same time the government tended to intervene in their operations to fulfil political goals. Such interventions in lending activities of state owned banks, for instance, led to crowding out of private investment initiatives in favour of state owned companies, thus stifling private sector productivity which led to massive economic crisis in 1980s.

2.3.1 Economic and Political Sector Reforms in Tanzania

From the global economic context, similar to other developing countries, Tanzania was badly affected by economic crisis of the late 1970s and early 1980s (IMF, 1999). The crisis had reached a critical level, especially after the oil price shock of 1979 and, subsequently, the associated recession in advanced economies. At the time, Tanzania suffered a series of economic crises leading to collapse of its economy. National earnings were far below consumption levels, which was a clear indication that the country was living beyond its means. Improvements in living standards and achievements won in the initial period after independence were under serious threat.

The capacity of Tanzania's economy to support delivery of basic social services came under enormous strain. According to IMF Assessment Report (1999), the situation was further aggravated by various macroeconomic imbalances, which were manifested in budgetary deficits, balance of payments deficits, growing debt burden, increasing inflationary pressures, and weakening productive sectors. Inefficiency of public firms

also led to huge burden on government budget, leading to excessive deficits and long-run economic downturn. By 1980s, Tanzania was ranked by IMF and World Bank as the second poorest country in Gross Domestic Product (GDP) per capita-terms. These world economic and financial institutions associated Tanzania's problems with poorly implemented policies and structural weaknesses.

In early 1980s, Tanzania embarked on a market-oriented reform initiative to solve the crisis. However, these reform initiatives took place with a lot of resistance from the political leadership (Mowatt, 2001). For example, in an attempt to block conditionality reforms prescribed by the World Bank and IMF, Tanzania tried its own adjustment programmes. However, due to failure of its home grown reform programmes, Tanzania adopted a series of donor supported Structural Adjustment Programmes (SAP) starting 1986.

The first of these was the Economic Recovery Programme (ERP-I) adopted in 1986/89, followed by ERP-II in 1989/92. The aim of these two reform programmes was to achieve sustainable growth in real income, output, and opening-up of Tanzanian economy to outside world by adopting an attractive foreign investment code through economic liberalization. Apart from undergoing comprehensive economic recovery programmes, Tanzania also made significant changes in the political sphere in the 1990s. In 1992, Tanzania adopted a multiparty democracy as part of the worldwide democratization process. The new political system was able to enhance the establishment of legal and administrative framework for different players to participate effectively and efficiently in the country's economic management and decision-making. According to Greenwood and Smith (1997), stable macroeconomic and political policies create conducive environment for capital markets; facilitate stable growth of the real sector, which in turn ensures prospective business environment and higher investment returns.

2.3.2 Financial Sector Reforms in Tanzania

The financial sector reform programme was initiated after commencement of economic and political reform programmes. This was done later after realizing that in order to

sustain development in the real sector, there was need for a strong financial sector for mobilizing financial resources for allocation to private sector for growth (Sitta, 2005).

Between 1967 when banks and financial institutions were nationalized under the Arusha declaration and 1990, the Tanzanian financial system was entirely owned and controlled by the state. The system was extremely narrow, comprising of Central Bank, three commercial banks, two insurance companies, two contractual savings institutions, and one hire purchase company (Presidential Commission, 1990). The state owned these institutions and therefore subjected them to massive financial repression geared mainly towards provision of cheap credit to the central government, parastatals and cooperative societies, with the Bank of Tanzania (BOT) acting as lender of first resort rather than being lender of last resort. Tanzanian financial institutions therefore became mechanisms for financing government budget deficits and subsidizing loss-making parastatals and cooperative societies while savings mobilization was totally neglected. Furthermore, bank workers were generally poorly-paid and accounting systems and internal controls were weak (Soyibo, 1997). Interest rates were fixed for much of the period, with real rates being negative up to 1998 (Rweyemamu, 2003).

Financial reforms began slowly in the 1984/85 budget but were intensified in 1986 with Economic Recovery Programmes (ERP - I & II). A Presidential Commission of enquiry into monetary and banking system in Tanzania was established in 1988 and a Banking and Financial Institutions Act (BAFIA) of 1991, was passed to effect the financial sector reform through restructuring of the existing financial institutions, to promote private banking, to deregulate capital markets and to rationalize and strengthen legislative and supervisory powers of the Central Bank. The Act was envisaged to improve access to financial services through enhanced competition, increased and diversified financial products and providers, and improved integration of the financial system.

A review of the financial sector by Presidential Financial Sector Reform Commission (PFSRC) in 1990 revealed that savings mobilization declined continuously between 1979 and 1986. Financial assets which were equivalent to nearly 50 percent of GDP in 1979,

had fallen to 28 percent of GDP in 1986. The domestic savings rate which had peaked at 25 percent of GDP in 1977 fell to 8 percent in 1985 (Ziorklui et al. 2001). Following findings of the Presidential Commission, the government decided to initiate a comprehensive financial sector reform programme that aimed at achieving the following goals (Daudi, Lwiza and Nwankwo 2002):

(i) Liberalization of interest rates and exchange rates,
(ii) Restructuring of existing formal financial institutions,
(iii) Reforming financial policy environment,
(iv) Fostering financial institutions competition,
(v) Strengthening regulatory and supervisory roles of BOT, and,
(vi) Fostering an efficient money market by creating new instruments.

Financial sector liberalization increased actors in the financial market and improved business efficiency through enhanced competition. For example, the number of commercial banks in Tanzania increased from 2 in 1991 to 23 by 2004, while, other types of financial institutions also emerged, including non-bank financial institutions, microfinance institutions, development banks, bureau de change and capital markets with one stock exchange characterized by few brokers/dealers (BOT, 2006). However, an impact assessment of the financial liberalization had mixed results (Adelegan, 2007). While there was a distinct expansion in financial institutions' products and services, these are more concentrated in urban areas and accessed mostly by wealthy clients. Consequently, rural households' access to finance was diminishing. On the other hand, most financial institutions continued to employ traditional banking approaches; for instance, the requirement of strict and unfriendly collateral against loans, preference for less risky category of clients, bias towards large loans and bureaucratic procedures in providing loans.

After financial sector liberalization, it was expected that with the end of state monopoly, the banking sector would usher in an era of high deposit rates to attract investors in the money market (Mushi, 2006). It was also expected that, the cost of borrowing/lending could be low with high interests in deposit rates. However, the reality is that, lending

rates are very high while deposit rates are below the annual inflation rate of 11-12 percent which is a disincentive to savers who will get negative returns by putting their money in the bank. According to Mbogolo (2009), the Development Enterprises Community Initiative (DECI) is a product and indication of the shortfalls in the banking sector existing in Tanzania after reforms of the financial system.

Mbogolo (ibid) argues that, Commercial banks in Tanzania are extremely risk averse when it comes to dealing with small-scale entrepreneurs. Commercial banks use two instruments to enforce their risk averseness when dealing with this category of entrepreneurs. The first instrument is the use of high interest rates that are charged on loans. For a loan with such high interest rates to be of benefit to a small-scale entrepreneur or a farmer, it must be invested in a business activity that will yield very high returns. Such business activities are very few in Tanzania, as a result, small-scale entrepreneurs and farmers are automatically barred from the financial services available from these commercial banks. The second instrument used by commercial banks is the application of strict collateral conditions. For example, they require that, property acceptable as security cover for a loan is only that with legal status. Most of small-scale entrepreneurs and farmers do own properties such as houses or land, which are not legally covered though with no fault of theirs. So under this requirement, the majority of Tanzanians are barred from benefiting from financial services that are offered by commercial banks.

Financial sector reforms have been an important component of the Structural Adjustment Programme pursued by emerging economic markets, whereby the reform entails reducing government involvement, freeing up financial markets, and strengthening financial institutions (Mowatt, 2001). Economic growth requires financial institutions to act as intermediaries for mobilization of long-term savings, which can then be channelled into productive investment. It follows then that, a more efficient and diversified financial system will assist in increasing the level of domestic savings as well as promoting foreign capital inflows. A well-developed financial system will assist business and the

government to better manage risk. Intuitively, then, the financial system reform was important in that it created an environment for Tanzanian economic growth to occur.

Whereas the government of Tanzania in its Vision 2025 is committed to poverty reduction among its citizens, yet, access to financial services by private entrepreneurs is an important component in the realization of its development goals. We expect that, economic and financial reforms being implemented in Tanzania will give the private sector an upper hand in driving economic growth. The decision to transfer part of its functions and responsibilities to the private sector through privatization of state owned enterprises and liberalization policies means that both the government and the private sector have to quickly adjust to the dynamic ways of operating in an open market economy. Deliberate efforts must be taken by the private sector, in support of government, to promote good governance and management as instruments for promotion of economic growth, equity, unity and peace; and participate, together with civil service in the war against corruption. This will make possible the creation of a conducive environment for capital resource mobilization in order to strengthen private sector (local and foreign) investment opportunities in Tanzania.

2.4 Private Sector Business and Financing Environment in Tanzania

Tanzania pursued an inward oriented development approach since 1967 which led to significant nationalization of private business establishments and collectivization of agriculture. By mid-1970s, the weaknesses of this approach started to become apparent as it led to economic setbacks and stagnation, which culminated into economic crisis of 1980s. By mid-1980s, Tanzania had to consider adoption of a different development approach that would reduce the role of the state and foster private sector led development.

To attract investors, the government embarked on economic reforms and restructuring between mid-1980s and 1990. These reforms were accelerated in 1990s, with earnest efforts to privatize state-owned parastatals and create enabling environment for private investment. The reforms marked a clear shift in favour of private sector development and

market oriented economy. The role of government was re-defined from that of only providing policy guidelines to stimulating private investments (local and foreign) and providing support for investment (World Economic Survey, 2005).

2.4.1 Private Sector Business Environment

To attract private sector investments, the Tanzanian government has amended and enacted several policies including the launching of a new Investment Policy of Tanzania in 1996, which led to the Tanzanian Investment Act of 1997. Other changes introduced by 1997 Investment Act include: establishment of Tanzania Investment Centre (TIC) with a mandate to identify investment priorities, introduce investment incentives, protect investors' rights and introduce a new company registration process.

One of the basic goals of reform has been to ensure a greater allocation of credit to the private sector for growth and poverty alleviation (Ziorklui, et al. 2001). According to World Economic Survey (ibid), economic and financial sector reform programmes which are currently implemented in the country aim at creating conducive business environment to the private sector, and this is reflected in three basic assumptions: that Tanzania is committed to a free market economy; thus the private sector will take the leading role in the economy in creating incomes, employment and growth; and, the government will be a producer of public goods and services, will play a regulatory role and be a promoter of all economic activities in order to level the playing field and facilitate the private sector to take the lead in driving economic growth. These assumptions are evident in almost all policy statements and measures already made by the government since reform programmes have been implemented in 1990s. For example, implementation strategies of the economic and financial reform programmes are in line with Tanzania Development Vision, 2025 which states that, the government of Tanzania is committed to a market driven economy wherein, the private sector shall play a greater role in economic development activities. Equally important is the Millennium Development Agenda of the international community which has been ratified by Tanzanian government, which emphasizes on the potential role of private sector in helping countries, reach their development goals and targets.

According to Ziorklui et al. (op cit), the greatest problem facing the private sector is access to credit, especially long-term capital for productive activities. Promotion of economic growth led by private sector requires creation of an enabling environment within which the private sector can flourish (Kibuthu, 2005). A supportive business environment is fundamental to the development of the private sector. Without an investment climate that is supportive of entrepreneurship and growth-oriented businesses, initiatives related to access to finance will have limited impact.

A key factor in building a supportive business environment is the healthy growth of a nation's financial sector, which, in turn, improves private sectors' access to services such as bank credit, equity capital, payments and risk management services. Moreover, apart from strategizing at making business environment conducive to local enterprises, the government has to be very committed to attracting and supporting mutually beneficial business relationships with foreign institutions and international community (Mutakyahwa, 2007).

Kibuthu (ibid) identifies elements required to create a conducive and supportive business environment to private sector as:

(i) Level playing business ground,
(ii) Observance of rule of law,
(iii) Stable macroeconomic environment,
(iv) Appropriate physical, financial and social infrastructure,
(v) Harmonized inter-regional trade and elimination of trade barriers.

A number of umbrella private sector organizations and associations have been established in Tanzania, in order to articulate their needs to a wider public and strengthen their capacity for dialogue with the government. Such organizations include: Tanzania National Business Council (TNBC); Tanzania Private Sector Foundation (TPSF); Tanzania Chamber of Commerce, Industry and Agriculture (TCCIA); and, Confederation of Tanzania Industries (CTI), to mention, but a few.

Tanzania Development Vision, 2025 foresees that: Tanzania shall have created a strong, diversified, resilient and competitive economy which can effectively cope with challenges of development; an economy which can also easily and confidently adapt to changing market and technological conditions in regional and global economy by 2025. The vision seeks to actively mobilize people and other resources towards the achievement of shared goals. Private sector development is, therefore, one of the priorities of Tanzania's' investment policy. With appropriate macroeconomic policy environment and institutions in place, a strong private sector will generate revenue for government, companies and individuals and enhance efficiency and encourage competition. For example, Petersen, Plenborg and Scholar (2005) point out that, privately held firms account for more than 99% of all Germany firms, employing 70% of the Germany workforce and generating over 50% of the gross value added in the private sector.

2.4.2 Financing Private Sector in Tanzania

A major gap in the provision of financing Tanzanian private sector is the lack of reliable and well developed long-term financing sources. The financial system in Tanzania is dominated by commercial banks, which typically have not been reliable sources of long-term capital to the growing private sector. Non-bank sources of medium to long-term financing (eg. leasing, mortgage and contractual savings) are still not well developed (IMF, 2003). Hence, a potential component of financial sector development efforts in Tanzania is the expansion of capital markets with the objective of developing long-term debt and equity capital for financing growth of the private sector.

According to IMF (ibid) assessment report, capital markets in Tanzania have not yet been able to provide a substantial support in financing growth of the private sector for a number of reasons, one being the size of the market. The market is still thin, undeveloped with limited activity, as a result, the private sector has not made significant use of equity market as a source of long-term financing. Supply of new equities into the capital market is thin and privatizations have accounted for the bulk of new issues in recent years. According to Byam et al. (2002), the major factors limiting the supply of equities in the East African capital markets include: the reluctance of many small, family-owned

businesses to dilute ownership; the tedious and costly process of making public offers; and the generally undeveloped state of the private sector in the region.

2.5 Financial Markets System in Tanzania

The financial market system in Tanzania is composed of two distinct types of markets which are: Money and capital markets. Money market includes an interbank market for short-term debt instruments, which form a basis for management of liquidity and money in the economy by monetary authorities. A capital market, on the other hand, is a long-term nature of the financial instruments and deals in securities. The ultimate objective of developing financial markets is to increase efficient utilization of financial resources in the development process as a means of speeding-up national economic growth. Maloti (2009) argues that, while most capital markets in African countries are relatively underdeveloped, those countries which introduced reforms that are geared towards development of capital markets have been able to grow at relatively higher and sustainable rates.

2.5.1 Financial Markets Framework

Financial markets in Tanzania serve as outlets for savings, source of liquidity and credit, means of payment, risk cushioning and a policy making tool in an economy. They are a key factor to economic growth; hence, there are several good reasons for developing them. According to IMF (2003), a financial system and, in particular, the capital market in Tanzania, is very small and activity is concentrated in banking. IMF assessment recommends that, Tanzania should build a financial sector infrastructure, specifically, with regard to legal and judicial framework and disclosure requirements in order to support financial sector reforms.

In recognition of these obvious facts, the Bank of Tanzania (BOT) has been striving to strengthen the financial sector framework despite some challenging factors. BOT (2008) report indicates that, the country's financial sector has been strengthening over the years, thus contributing to fast growth of the economy and, particularly, an increase of credit directed to the private sector. For example, in the financial year 2008/09, credit to the

private sector amounted to a staggering figure of Tshs840.4bn, equivalent to 85 percent of the intended increase of Ths990bn for the entire year up to November, 2008. Credit increase to the sector was 46.9 percent compared to the goal of 30.3 percent towards June, 2009 (Lubuva, 2009). The objective of the country's financial sector for the year 2008/09 was also to experience an inflation rate that does not exceed 7 percent by June, 2009. Other objectives included controlling of increased interest rates, promoting stability in the banking system and eventually promoting efficiency in the financial sector.

Bekaert, Harvey and Lundlad (2005) suggested in their empirical study that equity market liberalizations are associated with higher real growth in the range of one percent per annum. With macroeconomic and financial sector reforms implemented in Tanzania, including improvement of investment and business climate, GDP increased by more than 7 percent for the last six years, from 2002 to 2007 (op cit.). According to BOT report, the banking sector continued to grow to the extent that by November, 2008, a total number of 25 private commercial banks and 10 private financial institutions with 385 branches throughout the country were established. Out of the total number of commercial banks and financial institutions, 12 were 100 percent owned by Tanzanians, 12 were 100 percent owned by foreign investors and 11 were jointly owned by Tanzanians and foreign investors. Proliferation of private players in the financial sector led to more competition and increased efficiency, particularly, in banking operations. Foreign banks have build-up a capital base and clientele, which includes major international corporations as well as local public and private enterprises. For example, by end of 2000, Standard Chartered Bank had built-up a capital base of over US $220million (Mashindano, 2001). In addition, new banks have introduced a number of innovative products and services previously not available in Tanzania, including interest services for corporate customers (the first such service in East Africa), enabling corporate customers to access their accounts or conduct business through electronic banking services.

Despite the fact that the financial sector has undergone considerable changes and improvements in its services since the macroeconomic and financial sector reforms of last decade, the business climate in Tanzania is still facing a number of challenges. If these

challenges are not tackled now, they may undermine potential investment opportunities available in the country. Among the challenges include: first, privatization and foreign ownership have affected credit access for small and medium enterprises and agriculture sector in the rural areas. As a result of the reforms, most banks and financial institutions have withdrawn from rural areas and are now concentrated in urban centres (Agtmael, 2007). For example, over 80 branches of the former National Bank of Commerce (NBC), which were located in rural areas, were closed down during the 1990s by new owners after being privatized. Second, Tax reforms aimed at simplifying the tax system and broadening the tax base, have been an important component of Tanzanians' economic reform programme (Mbogolo, 2009).

There are claims raised by the public that, despite the success in the tax reforms, the private sector in Tanzania is burdened with a series of local taxes through numerous local licenses, permits, duties, and levies which impose additional transaction costs on investors. Others claim that, the multiplicity of taxes and non-transparent procedures, which encourage corruption, are obstacles to local and foreign investors. On the other hand, there are those who feel strongly that Tanzania is giving away more than necessary in the name of investment incentives. Looking at the tax structure critically, one could say that, Tanzania has been overly generous to investors compared to many other countries in the world.

2.5.2 Capital Markets Development in Tanzania

During the period before reforms, there were no effective efforts to develop capital markets in Tanzania for mobilization of long-term capital. According to the Presidential Commission (1990), the restructuring of the financial system after Arusha Declaration was intended to increase national self-reliance. It however failed to do so as the government faced increasing difficulty in raising revenue and improving capital formation, particularly in relation to large scale projects and became increasingly dependent on foreign loans and grants. In addition, there were no efforts made to provide legal assurance against nationalization of foreign companies in order to forestall the fear of foreign investors. However, much has been done during the reforms to enhance

activities of capital markets in Tanzania. Major institutional changes within the Tanzanian capital market include establishment of Capital Markets and Securities Authority (CMSA) in 1994, Dar es Salaam Stock Exchange (DSE) in 1996/1998 and private banks and non-bank financial institutions. In addition, new investment initiatives and private sector policies were introduced to provide guarantees and assurance to foreign investors. As a result, foreign direct investments have been encouraged (Ziorklui, et al. op cit).

The underlying reason for developing capital markets in Tanzania is transition of the country's economy from a planned economy, dominated by parastatal enterprises, towards an open market economy where private sector is expected to play an increasingly important role. According to World Bank (2003) financial sector assessment report, there has been macroeconomic stabilization, opening the economy to private financial services providers and the liberalization of domestic financial intermediation. The reports' recommendations to the Tanzanian government in strengthening securities market include: Amending Companies law to provide for better protection to shareholders; clarifying company accounts in accordance with international accounting, auditing and corporate governance standards; facilitating cooperation between financial institutions for capacity building and improving financial infrastructure, enhancing transparency in debt market operations; addressing risk gaps in payment and securities settlement systems and clarifying the oversight role of BOT; and lastly, establishing a financial system crisis prevention and management plan and limiting the role of Deposit Insurance Fund (DIF) to that of Pay Box (PB).

Within the open market economy, capital markets are expected to have the following functions: mobilizing savings from idle agents and transferring them to productive agents; provision of finance to companies; encouragement of broader ownership of productive transfer (pricing) of capital resources. According to Lagoarde-Segot and Brian (2006), investors and companies tend to have conflicting concerns over the optimal degree of liquidity of financial transactions. Investors favour high liquidity, whereas companies need to be assured of long-term credits to match their long-term assets. To

reconcile these conflicting concerns, transactions in the secondary markets are necessary as they enable new issues in primary markets to be successful. Equity market development, therefore, allows easing the tension between saver's preference for liquidity and entrepreneur's need for long-term finance.

2.5.3 Concluding Remarks

Capital markets provide a mechanism for intermediation, over long-term, between financial surplus units and financial deficit units. As such, they form the artery for the flow of resources among various economic sectors. Efficient capital markets and a prosperous private sector grow from real needs of the economy, especially the need for long-term financing, and they develop through serving domestic and foreign sectors of the economy. We cannot ignore the fact that a vibrant capital market needs a vibrant private sector (Byam et al. 2002).

Capital markets and the private sector will thrive within an environment which ensures the presence of economic and political stability, sound fiscal and monetary policies and appropriate legal and effective regulatory framework. According to Shahid (2003), it should be noted that research on going public decision has been dominated by studies conducted in developed countries. However, there is now increasing awareness that theories originating from developed countries may have limited applicability and need to be tested in emerging markets and, particularly, in the sub-Sahara African context that are characterized by different political, economic, cultural institutional, social, legal-framework and other related factors. The present study intends to contribute towards that noble aspiration.

CHAPTER THREE

LITERATURE REVIEW

3.1 Key Concepts in Capital Market Theory

Economists have since 1990s devoted considerable time and resources to study the interrelationship between concepts of financial markets and the processes of real resource allocation (Capasso, 2006). Recently, a new wave of interest has come-up which specifically investigates the theory of the going-public decision (Boehmer & Ljungqvist, 2004; Brau & Fawcett, 2006; Campbell, 1991; Pagano et al. 1998; Ritter, 1984). For instance, in the pecking order theory, Myers and Majluf (1984) argue that firms will always prefer to solicit the cheapest source of financing. As firms exhaust the cheapest sources, they must move on to more expensive options to continue to grow. Along this line of logic, firms first prefer internal capital as it is the cheapest source compared to external debt and external equity. Once internal capital is exhausted, firms prefer debt financing. At some point, debt financing becomes too expensive (based on default risk and bankruptcy costs) and the firm must turn to external equity financing. This is the time when a company will be required to make a decision to participate in the capital markets.

Given this introduction, it is considered appropriate to define the important key concepts used in this study, followed by a detailed review of the theories of going public decision. This is then followed by the review of essential links between private company going public, capital markets participation and economic growth in Tanzania. Furthermore, in this chapter, we have a section reviewing various empirical studies relevant to going public decisions. Finally, the chapter provides for the conceptual framework, focusing specifically on the conceptual model and hypotheses of the study.

3.2 Definition of Concepts

The key research concepts in this study are: capital market; going public; market participation; and, emerging capital markets.

3.2.1 Capital Market

A simple linguistic definition of a *capital market* is that it is a market for buying and selling of Government and companies securities (Wikipedia, 2003). Capital markets are facilities and mechanisms through which funds move from idle holders to productive users (DSE, 2007). However, a more scientific definition, which is the one applicable in this study, is provided by CMSA (2007c): *Capital market* is a market for long-term financial assets whose maturity extends beyond one year and is held over a long period of time by issuers. Common capital market instruments include: Equity shares, which represent part ownership of the stake in a company; bonds (debt) advanced to issuers i.e. a Company, Government or a Municipality with a defined maturity and interest (coupon) payment; and units in a CIS. According to Rashidi (2008), a capital market is an integral component of financial markets that provide avenues for raising long-term financial resources and channel them to economic ventures, thus availing several economic benefits and potentials for economic development. In the process, capital markets provide liquidity, price discovery, reduced inflation, reduced cost of financial transactions, transfer of risk and an alternative source of financing investments.

Capasso (2006) views capital market as a multi-dimensional concept through which the following channels impact on economic growth: First, *Savings mobilization,* a mechanism where capital markets pool the savings of share investors and make them available to borrowers for long-term investments; Second, *Risk sharing,* where each investor owns only a partial stake in a project to enable multiple investors to share a high-risk with high-return projects to be undertaken; Third, *Price discovery* which has information content that signals scarcity and value, thereby allowing the allocation of resources to their best use; Last but not least, *Corporate governance practice and control,* in which the market promotes good governance of a public enterprise using external pressure from stakeholders.

3.2.2 Emerging Capital Markets

Emerging capital markets means capital markets based in developing or emerging market economies. A more scientific definition applicable in this study is the one coined in 1981 by Agtmael of the IFC/WB. According to Agtmael, Emerging Capital Markets is commonly used to describe capital market activities of countries characterized as transitional, meaning they are in the process of moving from a closed to an open market economy while building accountability within the system. In an emerging capital market economy, a country is embarking on economic reform programmes that will lead it to stronger and more responsible economic performance levels, as well as transparency and efficiency in capital markets. According to IFC, 1997 report, an emerging capital market is determined after incorporating the market size (i.e. number of listed public companies), liquidity and sophistication (i.e. transaction costs, clearing, disclosure standards and accounting and auditing standards).

3.2.3 Market Participation

In simple terms, *participation* is to take part in a system or process (Oxford English Mini-dictionary, 2006). Hence, *market participation* means taking part in the market. The use of the word *market participation* in this study means: The real issuing of company's securities through primary capital markets in Tanzania following the company's decision to go public.

3.2.4 Going Public

In simple terms, going public is when a private company offer shares to the public market and investors (Free Dictionary, 2004). Investment Dictionary (2007), defines going public as the process of selling shares that were formerly privately held to new investors for the first time. Going public, in a scientific definition (Scott, 2003) which is applicable in this study, is the process by which a privately held company sells a portion of its ownership to the general public through a stock offering. Owners generally take their firms public because they need additional large sums of equity funding that they are unable or unwilling to contribute themselves.

3.3 Essential Links between Private Company Going Public and Economic Growth

There are mixed views from empirical studies as to whether capital markets have contributed to economic growth in the developing countries (Kenny & Moss, 1998). Some people view capital markets as a symbol of national pride and may therefore be established for wrong reasons. One of the most enduring debates in economics is whether financial development causes economic growth or whether it is a consequence of increased economic activity (Filer, Hanousek and Campos 2000). Al-Tamini, Al-Award and Chariff (2001) argue that, both phenomena, financial and economic development affect each other at all times and at all stages of development. According to Inyangete (2001), a capital market is part of financial markets which comprise the totality of systems through which financial resources are attracted and guided to investments. The well functioning of country's capital market is a dominant condition for economic development. Andriesz et al. (2003) study results indicated that not only is there evidence of a long-run positive linkage between financial liberalization and economic growth, but also that there is strong evidence to indicate that the direction of causation runs from the former to the latter and not vice-versa.

Economic growth in a modern economy hinges on an efficient and effective financial sector that pools domestic savings and mobilizes capital for productive projects (Maloti, 2009). According to Maloti (ibid), absence of an effective capital market could leave most productive projects which carry developmental agenda unexploited. A capital market connects the monetary sector with the real sector and therefore facilitates growth in real sector and economic development. Recent empirical findings show that developments in the financial sector, whether on saving or lending side, do contribute to economic growth. Profitable investments require a long-term commitment of capital, which investors are unwilling to commit unless there are mechanisms that allow holders of long-term investments, such as bonds and equity shares, to sell quickly and cheaply if they need access to their savings or want to rearrange their portfolios (Kapumba, 2000). In this process, companies also enjoy permanent access to capital raised through equity

issues. By facilitating profitable investment by companies, liquid markets improve allocation of capital and enhance prospects for economic growth.

The factor influencing positive impact of financial sector deepening on growth is the ability of firms to raise capital (Gross, 2001). The financial sector channels funds into savings and from savings into investment, as a result, both can have major implications for economic development. Endogenous growth models have suggested that financial development leads to an increased savings mobilization and better allocation of capital (Bencivenga & Smith, 1991; Greenwood & Jovanovic, 1990).

Wiketye (1984) argues that, there is apparently a significant, positive impact on the national saving rate in African countries from improvements in the development of the financial sector. Capital markets attract foreign portfolio investors who are critical in supplementing the domestic savings levels and facilitating inflows of foreign financial resources into domestic economy (Kumar, 2004). Caporale, Homells and Soliman (2003) argues that, a well-functioning stock market is vital in promoting economic growth in less-developed countries. According to Inyangete and Warsame (2000), the establishment and growth of stock markets in Africa is expected to have a positive impact on the economic growth of African countries. Stock markets have attracted limited capital funds to the highest value users and therefore maximized productive capability of the limited capital available.

Capital markets facilitate economic growth by providing a network mechanism to private sector companies, with potential to going public, to raise capital from the investing public. The process is such that, a going public company is able to raise capital from the general public by issuing equity shares and/or corporate bonds through Stock Exchange or Over the Counter (OTC). In this way, a going public company can tap the savings of every person in the country in order to obtain capital that may not be easily available from their own resources or from banks. Going public companies that will be able to raise capital by issuing equity shares or corporate bonds to the public will be capable of

expanding their services, replace equipment/machinery and develop new products which will directly contribute to economic growth.

Equity markets provide proper incentives for managers to make investment decisions that affect a firm's value over a longer time period than manager's employment horizons through equity-based compensation schemes (Dow & Gorton, 1997). Equity markets have the ability to generate information about innovative activity of entrepreneurs (King & Levine, 1993) or the aggregate state of technology (Greenwood & Jovanovic, 1990). Equity markets provide portfolio diversification, enabling individual firms to engage in specialized production with resulting efficiency gains (Acemoglu & Zilibothi, 1997). Diverse equity ownership creates a constituency for political stability, which, in turn, promotes growth (Perotti & Oijen, 1999). From these arguments, it is clear that an active equity market is an important engine of economic growth.

Ziorklui et al. (2001) argue that, the development of a viable capital market depends on viable companies in the private sector that are willing to participate in the stock exchange in form of listing to raise long-term capital. Maloti (2009) argues that, capital markets increase the proportion of long-term savings that are channelled to long-term investment. In this way, the capital market enables corporations to raise capital/funds to finance their investments in real assets. The outcome is an increase in productivity within the economy, leading to more employment, increase in aggregate consumption and hence growth and development. Capital markets also help in diffusing stresses on the banking system by matching long-term investment with long-term capital. They encourage broader ownership of productive economic growth and wealth distribution. They also provide avenues for investment opportunities that encourage a thrift culture, critical in increasing domestic savings and investment ratios that are essential for rapid industrialization. Therefore, we can conclude that, a viable and developed capital market relies very much on the availability of companies that are ready to issue shares to the public (supply side) and individuals/institutional investors who are ready to become investors in companies issuing shares to the public (demand side).

Capital markets also promote public-private sector partnerships to encourage participation of the private sector in productive investments. The need to shift economic development from the public to the private sector to enhance economic productivity has become inevitable as resources continue to diminish. It assists the public sector to close resource gap and complement its efforts in financing essential socio-economic development through raising long-term project based capital. However, Lagoarde-Segot and Brian (2006) argue that, the theoretical impact of equity markets is ambiguous. At the domestic level, the allocation function of equity markets appears conditioned by the extent of informational efficiency. To international linkages, theoretical models suggest that equity market integration lowers the cost of capital, increases financial vulnerability and has a mixed impact on capital flows.

Theory suggests that enforcement of securities laws is important (Bhattacharya, 2006). According to him, if securities laws are not enforced, outside investors will doubt whether they will get their money back with a fair return. So outside investors will not give their money to firms (this leads to low liquidity in capital markets) or, if they give money to firms, they will demand a higher return (this leads to a higher cost of equity). We can therefore conclude that, if firms cannot raise money from outside investors, they will not be able to invest in profitable projects. This will decrease growth, employment, and wealth-creation.

Conventional wisdom on going public is that it is a rational decision for a growing firm to look for new capital from the public to fund big investment projects (Maug, 2001). Today's business is capital intensive; Information Technology (IT) is expensive, so too is meeting regional and global competition that the IT boom has generated. Without access to needed capital resources, private sector businesses will stay small. Once friends, family and other personal resources are exhausted, and given that there is relatively little venture capital that exists in Tanzania, private sector companies have very limited other sources of capital. This is when going public becomes very critical to the future growth of Tanzanian private sector companies and the economy in general. However, many potential Tanzanian private companies have chosen to stay private (Deloitte, 2005). This

is, therefore, the incentive that stimulated this researcher to investigate and determine the real factors influencing private sector companies' decision to participate in capital markets in emerging market economies.

3.4 Going-Public Decision Framework

A traditional view in firm financing decision is that, companies access the public equity market via IPOs to raise equity capital to finance their growth (Mayur & Kumar; 2006). However, recent empirical evidence has led researchers to question whether raising equity capital is the only purpose to go public (Corwing & Harris, 1999; Kim & Weisbach, 2005; Mello & Parsons, 1998; Pagano et al. 1998; Ritter, 1984; Scott, 1976). Most of these researchers explain that, firms make "going public decision" using two associated models: 'Costs Model Theories' and 'Benefits Model Theories'. Boot, Gopalan and Thakor (2006) argues that, firm's initial choice of going public versus private ownership is driven by costs and benefits entrepreneur perceives in his role as manager and part-owner. According to these researchers, theories that interpret association between Firms' going public decision and Costs and Benefits models are explained by different going public theories as explained below.

3.4.1 Company's Capital Raising Theory

This theory perceives going public as one of the most important milestones in a firm's lifecycle because it allows firms to access public funds for additional capital necessary to fund its future growth (Kim & Weisback, 2005). Going public allows firms to access external financial resources which can be used either to compensate for lack of capital or high debt/equity levels, or as means to seize and finance growth opportunities (Harvey & Evans, 1995). Ding, Nowak and Zhang (2007) argue that, the decision to list on a particular stock exchange is a question of entrepreneurial signalling, and often a trade-off between short-term financial considerations and entrepreneur's pursuit of long-term benefits. However, practitioners talk about entrepreneur's cultural resistance to take their companies public and we expect that old and unquoted companies are more likely to be subject to this cultural effect (LaPorta, Silanes, Shleifer and Vishny 1997).

Arkebauer (2009) argues that, entrepreneurial managed companies are constantly on the search for new capital which is seldom easy to come by. Experienced entrepreneurs realize that financing of companies is done based on the stage of the company's development. However, companies with a proven track record have a much larger choice of financing alternatives- such as banks, venture capital firms and private or public offerings. Company's financing priorities are considered differently by private companies, depending on the stage of development.

First stage is the seed stage: This is the wild-eyed, perhaps incurable, inventor stage. At this stage, the company begins the development of a prototype, assemble some key management, develop a business plan, assess market potential, structure the company, and assess patentability or proprietary standing. Traditional capital investors have little interest in funding a company at this stage (Arkebauer, ibid). The risk level is just too high, and the time for achieving a payout or harvest is not determinable. Personal savings or friend and family money funds this stage.

Second stage is start-up stage: Traditional investors may show an interest at this stage, assuming that a top-rated management team is assembled, patentability or proprietorship is proven, and marketability is demonstrated.

Third stage is slow-growth: At this stage, the company is now a going concern. The product has proven manufacturability and is selling and if it is a service company, some customers have tried the service.

Fourth stage is fast-growth: At this stage, significant sales are developing as are assets and liabilities. The company is sporadically achieving break-even, cash flow management becomes critical and more sophisticated management systems are being put in place. Hence, sophisticated financing approaches i.e. equity financing are required at this stage.

Fifth stage is maturity: At this stage, all systems are really done, and the potential for a major success is seen and apparent for harvest. The company may need to obtain bridge-financing approach to increase its capital.

Last, but not least, is the winding-up stage: At this stage, the end may be near for entrepreneurial companies. The next challenge is to start all over again with a bigger capital i.e. by sorting out various options including going public, being acquired, selling out or merging.

Existing research suggests that family businesses are older than their non-family counterparts, controlling for size and sector (Westhead & Cowling, 1998). Before 1990s, firms going public in Europe, especially continental Europe tended to be much older than those going public in the US (Ritter, 2003).

Capital markets therefore predict that, small firms go public primarily to raise capital for growth, and family controlled firms view going public as a vehicle to strengthen their bargaining power with creditors without relinquishing control (Bancel & Mittoo, 2007). The life cycle theories postulate that, private companies base their financing decisions on company's stage of development, particularly, when in need of additional equity capital for growth and where the original owners and investors have reached a point when they wish to diversify their holdings (Brau, Francis and Kohers 2003).

On the onset of going public, the company may raise large amounts of capital that would not have been found through other mechanisms, while also having the possibility of seeing its stock increase in price in future, adding more capital value to the company. The primary advantage a company stands to gain through going public is access to capital which does not have to be repaid and does not involve an interest charge.

3.4.2 Company Control Theory

Helwege and Packer (2004) argue that, management desire for diversification is not all that important in a decision to stay private or go-public, instead, maintaining benefits of private control is a most significant factor behind large private firms in the US. Brau and Fawcett (2006) CFO's study revealed that, some private companies consider an IPO but decide to remain private because maintaining control of their companies is the number one reason for staying private. This is followed by a negative assessment of conditions in the public market and desire not to dilute ownership.

Dalton and Daily (1992) argue that family firms are the most efficient organizational structures because of little separation between control and management decision. Friend and Lang (1998) provide a test on whether a company's financing decisions and thus capital structure change are, at least in part, motivated by managerial self interest. They reveal from the test that, unless there is a non-managerial principal stockholder, no substantial increase of external financing can be realized, which may suggest that, existence of large non-managerial shareholders might make the interest of managers and public investors coincide. According to Klain (1998), the board structure has been cited as an indication of power of the Chief Executive Officer (CEO). Theory predicts that, CEOs who are very motivated to maintain control are likely to have weak boards of directors, such as very large boards or those that lack audit and compensation committees.

A number of theoretical and empirical studies focus on the benefits of control that accrue to majority private company owners (Aslan & Kumar, 2007; Boehmer & Ljungvist, 2004; Helwege & Packer, 2004). *The assumption in this theory is that private companies which are owned by founder and/or family members are likely to value control more than other things. This means that, private companies whose controlling shareholders enjoy large private benefits of control are less likely to go public.*

3.4.3 Company Growth Motive Theory

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 (Harvey & Evans, 1995). The growth motive theory views going public as an opportunity for private companies to raise capital to finance its expansion programmes in areas such as expanding product lines, increased distribution channels, hedge against volatility, increase its market share, or acquire other necessary business assets.

Aslan and Kumar (2007) argue that, there are *'Push – and Pull'* incentives for companies to go public. Private companies with ambition to undertake big investment and asset growth plans, but unable to internally fund these plans because of high rates of capital investment and high borrowing costs (due to high leverage), are pushed toward going public. These incentives are reinforced by the pull of higher expected stock pricing for companies with high industry-average market-to-book ratios and lower information-based discounts.

According to Marchisio and Ravasi (2001), critical benefits to family private companies going public are: Incentives to improve performance; increase in sources and tools to raise capital; stronger position of the firm with respect to all its stakeholders; reduction of average cost of credit; changing mentality within the company; higher efficiency in governance; improved relations with clients; and recruitment of new executives and directors. Brau et al. (2007) argue that, chief financial officers view going public as a way to fund short- and long-term growth, facilitate an optimal capital structure and dispersed ownership, increase founder liquidity, and give principals an immediate way to cash out. We can summarize this by stating that, going public is a costly, difficult and time-consuming process. Capital markets participants face the challenge of having to assess uncertain prospects of the markets for the companies. Meckel (2007) argues that, a company's perception to participate in the capital markets determines its value and thereby its strategic options. According to Meckel (ibid), the company's perception on capital markets rests on a number of non-financial factors that can be classified into seven

categories: Corporate strategy; management quality; corporate governance; corporate culture; corporate communication; customer and industrial relationships as well as public affairs.

Boehmer and Ljungqvist (2004) argue that, the key predictions of going public theories are: more companies will go public when outside valuations are high or increased; companies prefer going public when uncertainty about their future profitability is high; and, companies whose controlling shareholders enjoy large private benefits of control are less likely to go public. Also, Pagano and Roell (1998) argue that, company size and especially industry's market-to-book ratio increases the likelihood of a company going public.

Bancel and Mittoo (2007) identify the following benefits as influencing a company's decision to go public or remain private: investor recognition, reputation and credibility; growth opportunities; financial flexibility; greater bargaining power with commercial banks; exit strategy; cost of capital; external monitoring; windows of opportunity; and, stock liquidity.

If the growth rate of the firm is a motive for its future investment opportunities then, we expect that firms with high growth rate potentials will tend to go public, and quoted firms with low growth rates will go private (Brau et al. 2007).

3.4.4 Company's Confidentiality Theory

In as far as protection of investors is concerned, IOSCO states that investors should be protected from predatory activities such as; misleading, manipulative or fraudulent practices, including insider trading, front running or trading ahead of customers and the misuse of client assets. According to Kibola (2008), full disclosure of information material to investor's decisions is the most important means for ensuring investor protection. This is due to the fact that investors are, thereby, better able to assess the potential risks and rewards of their own interests.

As key components of disclosure requirements, accounting and auditing standards should be in place and they should be of a high and internationally acceptable quality in order to ensure that markets are fair, efficient and transparent. Birsen (2002) argues that, high disclosure standards based on accounting and auditing standards that are of internationally acceptable quality are needed to deter or reduce direct and indirect self-dealing in transition countries. Campbell (1979) was the first to point to confidentiality as a deterrent from getting funding in public markets. Pagano et al. (1998) argue that, disclosure rules of stock exchanges force companies to unveil information whose secrecy may be crucial for their competitive advantage, such as data about ongoing Research & Development (R&D) projects or future marketing strategies. They also expose them to close scrutiny from tax authorities, reducing their scope for tax avoidance and evasion, relative to private companies.

According to Chammanur et al. (2006), going public has the disadvantage of releasing confidential information to competing firms, which can then compete more effectively with the going public company. This means therefore, companies with highly confidential information would prefer to remain private than go public. Theory has proposed that when private benefits are high, controlling shareholders are less likely to choose going public because the higher standards for transparency and disclosure, as well as increased monitoring associated with going public compliance requirements, limit their ability to extract private benefits.

Byam et al. (2002) argue that, many firms in EAC are family-owned or closely-held and there is a clear reluctance to dilute ownership through public offers and even stronger aversion to the disclosure and transparency requirements associated with a public listing. They, therefore, tend to rely on bank finance as well as a proven network of family and friends to raise additional capital when required. *Yosha (1995) has shown that in equilibrium those firms with more sensitive information are deterred from going public if costs of a public offering are sufficiently high.*

3.4.5 Portfolio Diversification and Shareholder Base Theory

The decision to go public affects liquidity of a company's stock as well as the scope for diversification by initial owners of the company. In portfolio diversification theory, the owners' aim is to spread their risk, either by selling part of private business and buying equity in a broader portfolio of assets or by raising new equity which can then be used to acquire stakes in other companies. Going public becomes optimal whenever outside investors have a comparative advantage in collecting information that is useful for future capital budgeting decisions (Maug, 2001). Taking a company public provides to its owners opportunities for diversification, hence, expanding shareholders' base. Portfolio theory prescribes diversification as a way to reduce the overall risk of one's portfolio by removing non-systematic risk (Bodnaruk, Kandel, Massa and Simonov 2002).

A firm's decision to go public improves benefits from diversification (Pagano, 1993). According to Pastor, Taylor and Veronesi (2007), one of the diversification benefits of going public is risk reduction since a portfolio of stocks (equity and corporate bond) is less risky than concentrated private firm holdings. *Therefore, if diversification is an important motive in the decision to go public, we should expect riskier companies to be more likely to go public. Also, the more diversified the controlling shareholders are, the more likely it is that the firm will go public other, things being equal.*

3.4.6 Monitoring and Corporate Governance Theory

Monitoring and corporate governance addresses the checks and balances placed in the system to prevent abuse of power. Such power may reside in the CEO, if ownership of a company is widely dispersed or it may rest in the hands of an individual or a group(s) with controlling shareholding as often happens in markets dominated by family ownership (Shahid, 2003). Shareholder's role in governance is to appoint directors and auditors and to satisfy themselves that an appropriate governance structure is in place. The responsibilities of directors include setting company's strategic aims (by providing leadership to put them into effect), supervising the management of the business and reporting to shareholders on their stewardship. Board's actions are subject to laws, regulations and shareholders in general meeting.

Going public, and the threat of takeover it brings, may also be used by owners to increase market discipline on managers they employ. Some of the most important choices faced by a firm considering going public concern the structure of the firm's governance and monitoring mechanisms (Hatzell, Kallberg and Liu 2002). Managers of a company which has gone public must be aware of the obligations and constraints of running the company and adopt a suitable management style. Corporate business decisions can no longer be self-serving and managers must always be reminded of their fiduciary responsibilities. That is to say that, by having a wide and varied scope of owners, companies generally tends to improve on their management standards and efficiency in order to satisfy demands of shareholders within the stringent rules for public corporations by capital market regulatory authorities and the government.

Metcalfe (2007) argues that, governance is much more than rules, regulations, accountabilities, structures and frameworks. Governance is also about institutional and individual attitudes, leadership, values and behaviours. Consequently, public companies owned by shareholders who are members of the general public will be required to have better management records than privately-owned companies. While agency and information frictions are important in going public decisions, we should believe that sometimes other forces such as anticipation of future disagreement with investors can drive entrepreneur's choice of ownership mode (Boot et al. 2006).

Some well-documented cases where there has been considerable slippage in corporate governance on part of management, strict actions have been taken against the Directors e.g. Enron Corporation, MCI WorldCom, Pets.com, Webvan, Parmalat and (recently) the Lehman Brothers). *It can therefore be argued that, when company's monitoring and corporate governance is extremely stringent and leaves managers with little autonomy, companies would prefer to remain private rather than going public.*

3.4.7 Company's Windows of Opportunity Theory

According to Marchisio and Ravisi (2001), family firms' going public decision is motivated by the need to: increase reputation and social capital; exploit opportunities; finance growth; and manage the succession passage. However, a high market-to-book ratio may indicate that, rational investors place a high valuation on future growth opportunities in the industry (Ritter, 1984).

Regarding the going public decision, a testable prediction derived from windows of opportunity hypothesis is that the likelihood of going public should be positively related to industry market-to-book ratio (Albornoz & Pope, 2004). *It can therefore be argued that, if future growth opportunities require large investments, companies will be induced to go public in order to raise necessary funding.*

3.4.8 Cost of Capital and Information Asymmetry Theory

Under informational asymmetry, investors are less informed than issuers about the true value of companies going public (Leland & Pyle, 1977). However, due to asymmetric information, small firms are more likely to be under-priced by investors than large firms and could not get favourable price when financing through equity (Xi, 2008). Large firms are regarded as more capable of surviving from business risk, as they are more likely to diversify into different areas and default risks are better dispersed. Investors would be more willing to lend to large firms. Large firms are also better known and monitored by the market, and therefore information asymmetry is less severe to large firms than small firms. In this way, larger firms are more capable to be financed through going public because investors will be willing to invest in such firms. Huff (1994) finds that, small firms, as well as large firms, pursue growth-oriented strategies in a ratio of 4:12.

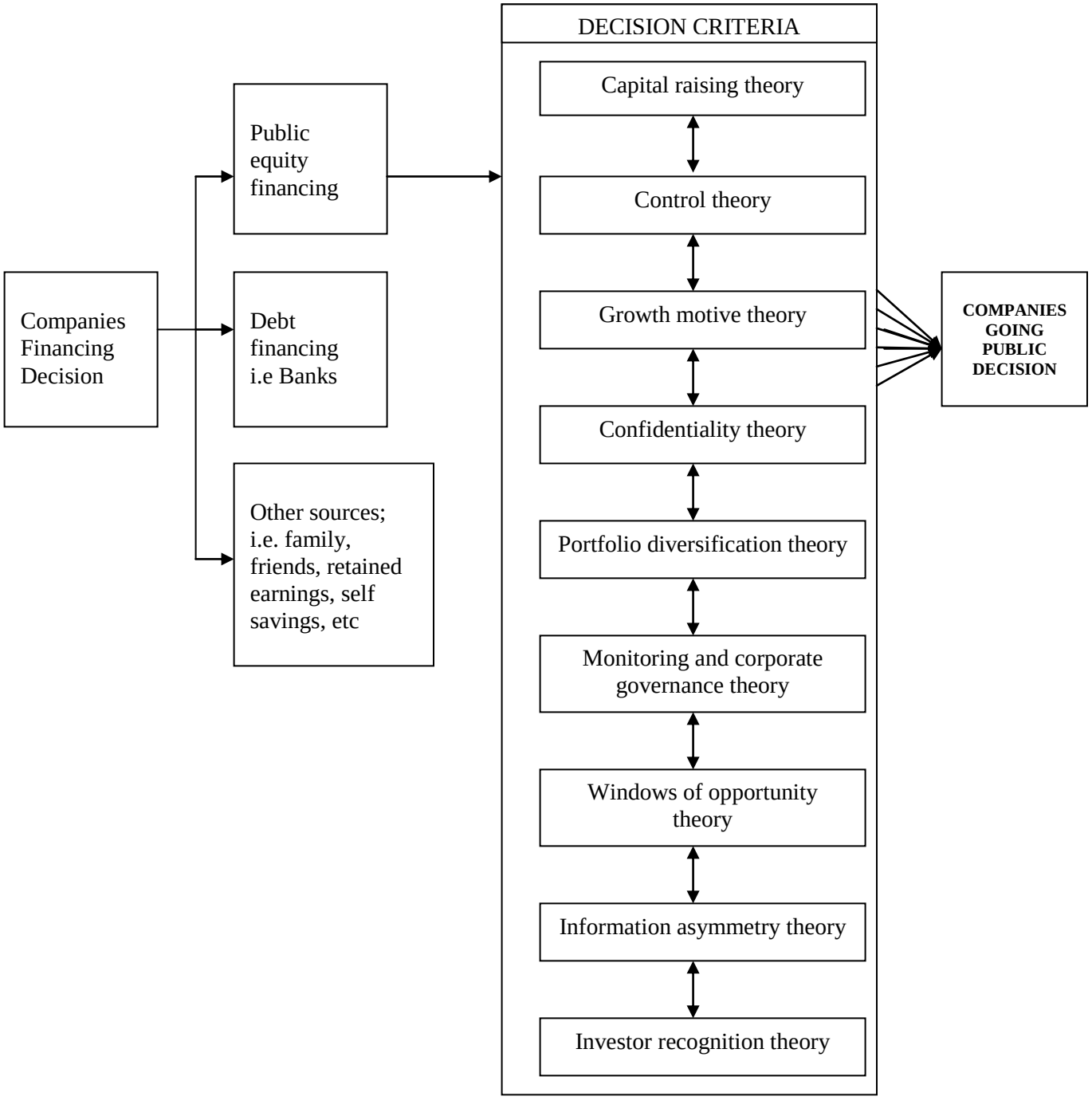
Chammanur and Fulghieri (1999), highlight that, informational asymmetry costs may be more serious obstacles to listing of young and small companies, which have little track record and low visibility, than for old and large companies. So in the presence of informational asymmetry and adverse selection, the possibility of going public is positively correlated with age and/or size of a company.

According to cost of capital theory, a motivation for going and being a public firm is to minimize the cost of capital for the firm and thus maximize value of the company (Scott, 1976). *It implies therefore that, the lower the cost of public capital versus private capital, the greater the incentive of private companies to go public.*

3.4.9 Company's Investor Recognition Theory

Mentor (1987) provides an extension to CAPM that relaxes the assumption of efficient information for all investors and shows that expected returns decrease with size of investor base, which he characterizes as the "Degree of investor recognition". Family controlled firms view IPO as a vehicle to strengthen their bargaining power with creditors without relinquishing control (Bancel & Mittoo, 2007). *It implies therefore, that the benefit of going public is diminished for companies with high ownership concentration or lower investor recognition; and, these firms are more likely to opt to be private than going public*. Figure 3.1 summarizes the discussion of going public discussion framework.

Figure 3.1 Going public decision framework



Source: *Author*

3.5 Going Public Legal and Regulatory Framework in Tanzania

Going public is one of the most important events in a private company's development process. Going public is often seen as a rite of passage in the life-cycle of a young, growing, successful firm. Bharat and Dittmar (2006) argue that, theories of going public emphasize trade-off between different economic forces that confer costs and benefits of being public. For example, trade-off between liquidity benefits of being a public firm as one of the economic forces, and costs of losing control in decision making as the other economic force could be the tension in a model that generates predictions on going public decision. *This means that, when benefits of liquidity exceed costs of having lesser control in decision making, Tanzanian companies will go public.*

3.5.1 Capital Market Legal and Regulatory Framework

Capital markets are used in the economy to promote real investment, provide liquidity, price stability, financial intermediation and capital formation. Suitable financial market environment is necessary for development of capital markets (Henry, 2000). In order to ensure orderly and equitable dealings in securities, as well as protection and security of investors, all capital markets, especially emerging ones, operate within a framework of laws and regulations enacted by the country (Osei, 1998). The extent and environment to which these laws are enforced will have a direct bearing on the development of capital markets.

The International Organization of Securities Commissions (IOSCO) stipulates that, three core objectives of securities regulation are: protection of investors; ensuring that markets are fair, efficient and transparent; and, reduction of systemic risk. IOSCO recognizes that these three objectives are closely related and, in some respects, overlap. In Tanzania, various laws are enacted in connection with regulating capital market activities; legal framework is centred on Capital Markets and Securities Act No.5 of 1994 as amended by Act No.4 of 1997 and cap.79 of the Laws of Tanzania. Act No.5 of 1994 was enacted to establish the Capital Markets and Securities Authority (CMSA) for the purpose of promoting and facilitating the development of orderly, fair and efficient capital market and securities industry in Tanzania, to make provisions with respect to stock exchanges,

stockbrokers and other persons dealing in securities and for connected purposes. The Act is supplemented by various regulations that are promulgated by the Minister of Finance (CMSA, 2005). CMSA is an ordinary member of International Organization of Securities Commissions (IOSCO). The legal framework and, the particularly enforcement of law regulating capital markets and securities activities in Tanzania has a direct bearing on going public environment and private sector Company's participation in capital markets.

CMSA is charged with regulation and supervision of all capital market activities in Tanzania. According to the Act (1994), CMSA is responsible for:

(i) Conducting securities surveillance and ensuring orderly, fair and equitable dealings;
(ii) Registering, licensing, and regulating stock exchanges, investment advisers, securities dealers and brokers;
(iii) Supervising market players to ensure professionalism;
(iv) Establishing securities market principles;
(v) Setting minimum capital requirements;
(vi) Monitoring financial stability of license holders and protecting customers from risk;
(vii) Prohibiting and preventing insider trading; and,
(viii) Regulating takeovers, mergers, and all other acquisitions.

Dar es Salaam Stock Exchange (DSE) is a self-regulatory organization which is supervised by CMSA. DSE is responsible for supervising trading on its market which includes ensuring member compliance with its rules and regulations. It shares responsibilities for market surveillance with CMSA, in order to prevent market manipulation. To protect investors, DSE has established Fidelity Fund Account for investor compensation. Also, DSE runs educational programmes, to various stakeholders, related to investing and trading of securities. Emerging market report (2007) attributes to limited listing with DSE to the fact that private companies fear tax repercussions for DSE's transparency requirements and flotation cost. As a result, the government has

offered tax incentives for listing, and DSE has demonstrated that the cost of going public is less than 4 percent.

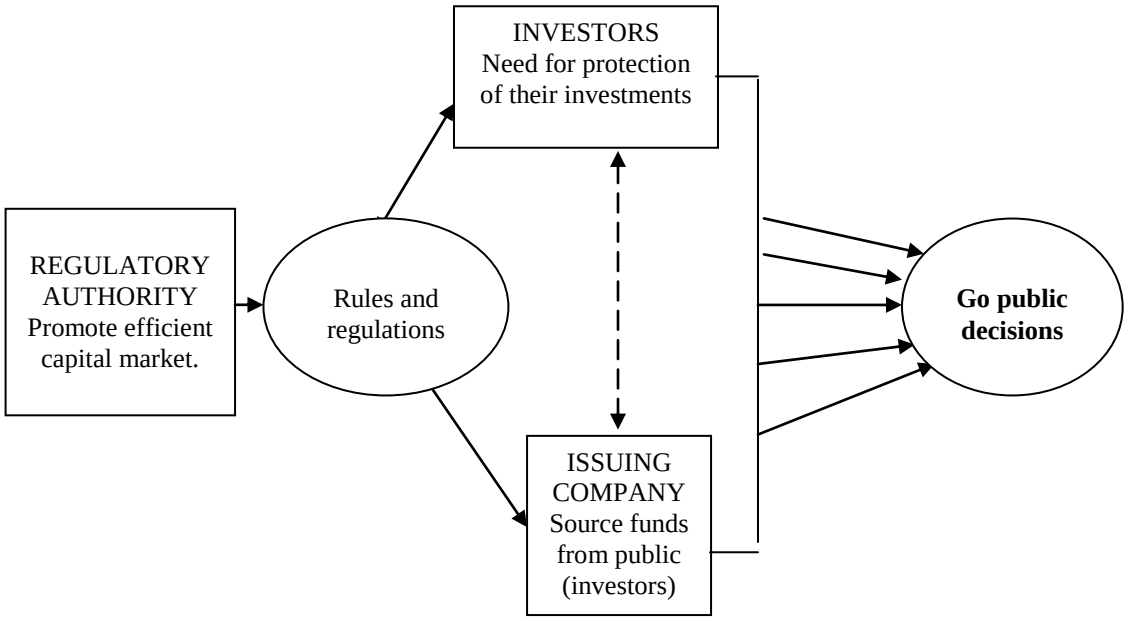
As stated in Mkono & Co. (2005) report, Capital Market and Securities Act guidelines on corporate governance practices require disclosure of information on companies' performance through regular annual reports. Furthermore, shareholders are entitled to receive information on voting rules and procedures, to participate and vote at the general shareholders meeting, place items on the agenda, and ask questions or seek clarification on the company's performance. World Bank report (2005), observed that, Tanzania adopted International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), and International Standards on Auditing (ISA) in 2004. This is in observance of international capital markets' standards and codes on accounting and auditing compliance. Legal framework for accounting and auditing requirements in Tanzania is largely based on the Companies' Act of 2002 which according to Pricewaterhouse Coopers' website, finally came into effect in 2006. The Companies Act of 2002 repealed the Companies Ordinance 212 of 1932. World Bank assessment report (2005) noted that, financial information contained in the prospectus of a company seeking listing has to comply with IFRS/IAS and be audited in accordance with ISA.

3.5.2 Going Public Rules and Regulations

Rules and regulations are key components of financial systems (Osei, 1998). The need for rules and regulations reflects the inherent feature of asymmetric information in financial markets as shown in figure 3.2. Rules and regulations are needed to protect investors, promote efficient capital markets and enhance confidence. Rules and regulations are used to balance needs of investor protection (which may lead to more stringent regulations) with the need to promote market efficiency (which may also lead to minimal government interference in markets). Better investor protection induces companies to issue more equity and thereby leads to a broader stock market. In turn, equity issuance expands shareholder base and increases support for shareholder protection (Pagano & Volpin, 2005).

Rules and regulations are therefore reviewed under the following going public criterion: listing rules; prospectus information disclosure; portfolio diversification to allow risk sharing; need for company's reputation and credibility; company's external monitoring and corporate governance; need for company's confidentiality; and the desire for company's control.

Figure 3.2 Inherent features of going public rules and regulations



Source: Author

3.5.2.1 Going Public Listing Rules

Going public listing rules requires a company issuing securities to the public to satisfy all the requirements set out in the following regulatory documents: Capital Markets and Securities Act, 1994 as amended in 1997; DSE Blue print; Companies Ordinance; NBAA's Accounting Standards and other various regulatory requirements promulgated by the Minister for Finance.

In Tanzania, companies with little or no track record are not an attractive investment for majority (ordinary) investors but are a good investment opportunity to high risk seeking

investors (CMSA, 2006). As a result, the Alternative Investment Market Segment (AIMS) companies characterized by much less free float shares than Main Investment Market Segment (MIMS) companies were introduced in the country by the securities regulatory authority.

Like any other developing or emerging market, the process of going public in Tanzania is a serious business and as such, it is imperative to have competent advisors to ensure a successful public offering. In other words, the choice to go public should be discussed with professional advisors before funds needed are collected. Professional advisors referred here include brokers, accountants, investment advisers and legal counsel. However, getting professional advice is fairly expensive, as such, *small and young Tanzanian companies with good investment opportunities, but without a track record, will often find external financing difficult and costly to acquire.* This is particularly true in many emerging markets, where firm financing is typically intermediated and public equity markets are relatively underdeveloped (La Porta et al. 1997). In 1983, the New York Stock Exchange (NYSE) changed its listing rules, making it easier for initial public offerings to meet minimum listing requirements (Corwin & Harris, 1999). This rule change made it possible for many large IPOs to list directly on NYSE and made initial listing decision an important part of the IPO process.

3.5.2.2 Prospectus Information Disclosure

Prospectus Information Disclosure is regulated by Capital markets and Securities (Prospectus Requirements) Regulations, 1997. These regulations supplement the general provisions on public issues of securities which are contained in the Capital Markets and Securities Act, 1994. In order to make public offer in Tanzania, a company must prepare a prospectus which must be approved by CMSA and meet minimum requirements for a company to go public. Before any company decides to solicit funds from the public, the going public rules and regulations require that, they should first draw-up an offer document called "prospectus", which needs to be registered with capital markets regulatory authority (CMSA in Tanzania). The document must present enough detailed

profile and financial information on the company's performance to allow prospective investors to make an informed choice on suitability of the issued shares.

The requirements of prospectus are designed to ensure that all applicants: prepare a prospectus, disclosing sufficient information about the company's history, size, prospects and financial condition; have adequate track record under present management; and that, the board will give all investors proper and equal treatment at all times. According to Osei (1998), public disclosure of relevant information about securities is important for both pricing efficiency and market confidence. *If Tanzanian investors are to make sound judgment about the value of securities, they must be fully informed of relevant facts about the issuing company.*

3.5.2.3 Portfolio Diversification

Portfolio Diversification is a going public decision theory which predicts that, the aim of owners of a going public company is spreading their risk by selling part of the private business and buying equity, which can then be used to acquire stakes in other companies. Some studies have explained company's going public decision as a risk sharing and diversification vehicle for the private company's owners (Mayur & Kumar, 2006). Thus, owners of companies with high growth investment opportunities, dislike investing more of their own personal wealth into their companies. Hence, they rely on external finance for funding of their major investments. According to Huyghebaert and Hule (2005), high premium charged by venture capitalists discourages risky companies from raising money through them; hence, going public offers the most suitable form of financing the company.

The opportunity to tap public markets for equity capital is appealing for high growth firms with large current and future investments that may have limited access to other financing alternatives due to high leverage and high growth (Pagano et al. 1998). Hence, the main role of a public market is to lower a firm's cost of capital through increased risk sharing and improved liquidity. *This implies that, lower cost of capital is likely to result in increased company investments, particularly among companies with greater*

investment opportunities in Tanzania. Clementi (2002) formalizes a similar argument and demonstrates that a firm's going public decision can be triggered by a sudden and persistent increase in levels of output growth and capital expenditure.

3.5.2.4 Reputation and Credibility

Reputation and credibility encompasses a company's windows of opportunity, prestige, growth opportunities and product and services reliability for building customer's image and all are related to company size and its track record with respect to going public decision. Theory advanced by Maksimovic and Pichler (2001) says that, going public can give firms first mover advantage and serve to increase recognition and reputation of a company. Going public will raise the level of awareness of the company and its product in both the investment community and public generally. This can result, for example, in a greater ability to attract high calibre employees, unprompted approaches by potential acquisition candidates and increased general business opportunities (Bharat & Dittmar, 2006). Furthermore, public companies also benefit from access to useful information brought to them by their advisors, financial analysts, stockbrokers and shareholders. Boot et al. (2006) revealed that, a public offering of stock can help a company gain prestige by creating a perception of the company's suitability. According to their study, when sharing ownership with the public, you are spreading the company's reputation and as a result increase business opportunities. In other words, by issuing stocks on an exchange the company gains additional exposure and becomes better known, which may lead to improved recognition and an increase in business opportunities.

According to Stoughton, Wrong and Zechner (2001), public firms tend to have higher profiles than private ones in order to enhance company's image and publicity, particularly in industries where success requires customers and suppliers to make long-term commitments. For example, a high-tech industry, such as software one, requires a significant investment in training and no manager would like to buy software from a firm that may not be around for future upgrades, improvements, bug fixes or parts replacement. Indeed, the supplier's and customer's perception of a company success is often a self-fulfilling prophecy. Stoughton et al. (ibid) argue that, the decision of a

company to go public may serve as a signal of its high quality to the product market. For example, consumers perceive a company's product to be better if its stock prices are high and hence, are ready to pay more for its products. Therefore, a good company can charge higher product prices in high market conditions. However, Helwege and Packer (2001) argue that, these benefits should be higher for companies with a large customer base. *In this case, therefore, there should be a higher propensity to go public in private companies belonging to retail trade sector in Tanzania.*

3.5.2.5 External Monitoring and Corporate Governance

External monitoring and corporate governance is regulated by Capital markets and Securities (Corporate governance) Guidelines, 2002. These guidelines aim at improving and strengthening a company's external monitoring and corporate governance practices by issuers of securities through capital markets and promoting standards of self-regulation so as to raise the level of governance in line with international trends. They address checks and balances placed in the system to prevent abuse of power. The guidelines have been issued in view of the role that good governance has in corporate performance, capital formation and maximization of shareholders value, in addition to protection of investor's rights. They apply to both the already public listed companies as well as any other potential company wishing to issue securities through capital markets, including issuing of debt instruments.

Some of the most important choices faced by a firm considering going public concern the structure of the firm's governance and monitoring mechanisms. These decisions influence initial valuation of the firm, its long-term operating performance, and investment decisions of institutional investors (Hartzell et al. 2002). From a corporate perspective, company's external monitoring and governance means that companies should not only maximize shareholders wealth but also balance interests of shareholders with other stakeholders such as employees, customers, lenders, suppliers and the public at large, in order to achieve long-term sustained value (Shahid, 2003).

External monitoring and corporate governance is mainly about how accountability towards shareholders is exercised. This means that systems are in place to ensure that shareholders are kept well-informed, in a balanced way, about a company's financial performance and prospects and, as such, a full voluntary disclosure is made of events and factors, which materially affect the interests of shareholders. Separation of ownership and control of the firm provides much of the impetus for corporate governance. Corporate governance addresses the agency problems that are induced by separation of ownership and control in the modern corporation. Even in developed countries, these agency problems continue to be sources of large costs to shareholders (Farma & Jehsen, 1983).

In emerging markets, adequate monitoring shareholder protection is often exception rather than the rule. Concentrated ownership is an important mechanism for corporate governance, when shareholder protection is inadequate, and indeed is the case in several emerging markets (Shleifer & Vishy, 1997). To mitigate shareholder-manager conflicts, many control mechanisms have been devised, including compensation contracts, board design, ant-takeover amendments, ownership structure, takeovers and the use of leverage. Melcalfe (2007) argues that, governance is much more than rules, regulations, accountabilities, structures and frameworks. Governance is also about institutional and individual attitudes, leadership, values and behaviours.

Agency-based theory research papers highlight the difference in governance arrangements and control implications between public and private ownership (Bolton & Von-Thadden, 1998; Boot et al. 2006; Pagano & Roell, 1998; Zingales, 1995). In these research papers, public company governance is typically represented by regulatory scrutiny, activist shareholders, and market for corporate control as characterized by monitoring by large shareholders. Moreover, in the context of an emerging market, absence of well-developed disclosure rules and adequate monitoring with public ownership coupled with a reduction in stock ownership by insiders, which usually occurs during an IPO, predict a worsening of agency problems in the newly public firm (Jensen & Meckling, 1977). During the research period, however, governance for corporate control was minimal in Tanzania and hostile takeovers and activist shareholders were

completely absent. Therefore, Agency-based theory can have limited relevance for private sector Company's going public decision in Tanzania.

We can, therefore, argue that, Tanzanian managers of private companies wishing to go public must be aware of obligations and constraints of running the company and adopt a suitable management style. This means that, managers of going public companies must be reminded that, corporate business decisions can no longer be self-serving and that they always have a fiduciary responsibility to the performance of the company.

3.5.2.6 Confidentiality

Confidentiality is regulated by Capital markets and Securities (Conduct of Business) Regulations, 1997. The conduct of Business Regulations list rules on conduct including inducements, churning, customer right, confidentiality, charges, and execution in addition to the conduct of business regulations covered in Capital Markets and Securities Act, 1994. Although, transparency of trading and other procedures allow efficient price setting and confidence in the fairness of capital markets, it is, however, believed that a major reason why private companies resist going public is the loss of confidentiality in company's business operations and strategies. For example, a company could fear that it will be destroyed if it were to disclose its sensitive information about their technology; profitability; or, present the future market growth strategies to its competitors. Mayur and Kumar (2006) argue that, in most countries securities market regulator have more stringent disclosure requirements for public companies than private companies.

We can argue that, in equilibrium, private companies with more sensitive information in Tanzania will be deterred from going public if the costs of a public offering are very high.

3.5.2.7 Control

If a sufficiently large proportion of a company's shares are sold to the public, private company's insiders may be faced with eventual loss of voting control powers of the company. Insiders will also be required to maintain a fiduciary responsibility to outside

shareholders in regard to decisions they make for the company, regardless of whether insiders retain a majority of company's stocks. This responsibility will be under constant scrutiny and may limit flexibility that a privately held company previously enjoy. Outsiders are often in a position to take control of corporate management and might even fire the entrepreneur/company founder. While, there are effective anti-takeover measures, investors are not willing to pay a high price for a company in which poor management could not be replaced.

According to owners' desire for control theory, one reason commonly cited for financing preference of firm owners is the desire for independence and to maintain control of the enterprise (Cressy, 1995; Chittenden & Hall, 1996). Thus, firm owners avoid issuing external equity, even if it means giving up projects with positive NPV (Holmes & Kent, 1991). Brau and Fawcett (2006) study reveals that, companies remain private to preserve decision-making control and ownership. However, IPO status (i.e. successful IPO, withdrawn IPO, or not-tried IPO) strongly influences CFO perceptions regarding risks and difficulties encountered in going public. Experience itself appears to affect managerial perspectives regarding the IPO process.

An intra-industry comparison study conducted by Bhaird and Lucey (2006) reveals that those in manufacturing, distribution, retail, hotels and catering sectors are most concerned about retaining control of their business. Either, 60 percent of businesses within the computer development and services industry disagree with SME owner's business control preference, which appears consistent with the finding of Berggren, Olofsson and Silver (2000) that technology development is negatively correlated with control aversion. *We can assume therefore that, going public naturally creates a separation between ownership and control which may lead to agency problems, as a result, companies in Tanzania may prefer to remain private.*

3.5.3 Costs of Going Public

Costs of going public are reflected in two categories: first, are costs and fees charged to take a company public; and secondly, are costs charged to keep the company public.

Lee, Lockheads, Ritter and Zhao (1996) study, examine both direct and indirect costs of going public. Direct costs of going public consist primarily of underwriter spread expenses, which is the difference between offer price and price received by issuer. Other direct expenses include listing and registration fees, legal and auditing fees, and costs of preparing registration statements. Under-pricing, defined as percentage price change from offer price to closing price on the first day of trading, is an indirect cost to the issuing firm.

Ritter (1987) argues that, on average, costs of registration and underwriting of an IPO amount to 14% of the funds raised. *Therefore, listing firms may consider differences in issue costs when making listing decisions (Corwin & Harris, 1999).* A similar situation can be assumed to Tanzanian companies when making listing decisions.

The cost of going public does not stop with initial offering since there are other on-going costs associated with being a public company. Such on-going costs include: Annual auditing fees; printing charges of annual reports; costs of arranging shareholder's meetings; and maintaining investor's relations. It is important also to note that, public ownership entails a greater degree of mandated information disclosure which may affect a firm's decision to go public. Bhattacharya and Ritter (1983); Maksimovic and Pichler (2001) highlight costs of such disclosure on a firm's competitive position and contrast costs with benefits of public ownership having a lower cost of capital and enabling firms to raise capital and expand scale.

It can be argued that, additional cost advantage of staying private in Tanzania is to allow companies to avoid paying on-going administrative costs associated with the company being public i.e. non-refundable annual fees payable after becoming public.

3.5.4 Going Public Company's Ordinance Compliance Requirements

The Companies Act which regulates the affairs of companies in Tanzania supplements provisions of Capital Markets and Securities Act in the following main areas: Matters pertaining to transformation of a private limited company into a public company; publication of prospectus; and, establishment of a depository by an approved stock exchange. In order to make a public offer, a private company wishing to go public must amend its Memorandum and Articles of Association to ensure that rights of individual shareholders are protected and reflect the public nature of the company. A company has to be duly incorporated as a public company with shares fully transferable.

Going public company ordinance requirements also require accounts of a going public company to be prepared and audited at internationally acceptable accounting and auditing standards by a reputable accounting firm before submitting to CMSA for further processing. The Public Company's Accounting System in Tanzania is regulated by Capital markets and Securities (Accounting and Financial Requirements) Regulations, 1997. These regulations provide for maintenance of accounting records (including audit trail), preparation of annual financial statements as well as treatment of customer money in accordance with the law (i.e. in trust for the client). These Regulations supplement provisions on accounts and audit, which are contained in Capital Markets and Securities Act, 1994. In order to narrow areas of differences and minimize dangers of bias, misinterpretation, inexactness and ambiguity, accountants and auditors have to adopt generally accepted accounting and auditing principles or standards.

It can be argued that, when going public the company's ordinance compliance requirements are so complex and demanding, that more Tanzania private companies will prefer to remain private rather than going public.

3.5.5 Going Public Company's Characteristics

According to Demirguc-Kunt, Laeven and Maksimovic (2004), a company's age, size and ownership structure are effective categorizations of companies when studying financing obstacles. Also, according to Coleman (2004) potential sources of capital vary

in accordance with age and size of the company. Theories for going public predict that, propensity to go public should be higher for larger and old firms (Pagano et al. 1998). Chammanur et al. (2006) argues that, firms which are large in size and have higher sales growth are more likely to go public. On the cost side of going public, a larger firm may be less exposed to adverse selection costs due to informational asymmetries between the issuer and the less informed investors at the time of going public. Adverse selection cost may be more serious obstacle to going public of small private companies which have little track record and low visibility than larger private companies. Chammanur et al. (ibid) also argue that, if adverse selection cost in going public is more serious to listing of young companies we would expect that older private companies will be more likely to go public. *Similarly, categorizing companies by their age, size and ownership is assumed useful when considering the effect of financial and institutional development on a company's going public in Tanzania*.

On the other side, Choe, Masulis and Nanda (1999) and Lowery (2002) argue that firms go public when they reach a certain point in the business growth cycle and need external equity capital to continue growing. Life cycle theories are based upon the premise that firms go public during certain periods in their growth cycle (Brau et al. 2003). Life cycle theories postulate that, private companies base their financing decisions on a company's stage of development, particularly when in need of additional equity capital for growth and where original owners and investors have reached the point when they wish to diversify their holdings.

Brau and Fawcett (2003) argue that, high-tech firms view going public decision more as a strategic reputation enhancement than as a financing decision. According to a study by Gopalan and Gormley (2007), one of the important features of emerging markets is the dominant presence of business groups. Business groups tend to enhance better access to capital by private companies as a result they may be less dependent on public equity markets for financing their growth. Evidence from the findings of their study confirms the hypothesis that, private company's going public is less likely to belong to business groups. *Hence, private companies in Tanzania may go public at a later stage in the*

company's life cycle and may do so for different reasons including: to have reliable products and services; age; leverage; capital expenditure; industry sector; and, investment levels. These results indicate therefore, that, private companies in business groups wait much longer before taking their companies public.

3.5.6 Summary Remarks

Generally, the reviewed theories of Going public decision address the question: under what circumstances and at which stage in its life should a company go public, rather than undertake its project using private financing sources?

Commencement of a going public process in Tanzania will require several key decisions to be made by the issuer and its advisers before flotation the company on the stock market is completed. Such decisions will include choice of financial and investment advisors, method of issue to adopt, amount of money to raise for the company, proportion of equity to sell to new investors and price at which the issue is to be sold because it will affect costs and benefits of going public. This is in consistent with Pagano et al. (1998) who argue that, the decision to go public is so complex that no single theory can hope to capture all of the relevant costs and benefits. Literature has, however, not systematically investigated how such decisions interact to influence costs and benefits of going public (Menyah & Paudya, 2002). Although these theories can hardly be nested in a single model, one can derive a set of (not mutually exclusive) testable predictions from them. Bancel and Mittoo study (2007) suggests that, going public decision is a complex decision that cannot be explained by one single theory because firms seek multiple benefits in going public. Considering the reviewed theoretical arguments, this study finds it important to determine factors' influencing a private sector company's going public or remain private decisions. Clearly understanding going public motivations, perceptions, preferences, and motives of private sector companies is critical to their success.

Theory and empirical research have explained company's management considerations when deciding to take a company public, but real-world experience does not always agree with theory (Brau & Fawcett, 2006). This study is therefore related to a growing

theoretical and empirical literature regarding a private company's decision to go public. The most famous studies by Brau and Fawcett (2006); Chammanur et al. (2006); Pagano et al. (1998) have analysed going public decisions using ex-ante characteristics and ex-post performance of going public firms. However, all studies focused on relatively developed financial markets such as Eastern Europe and USA. The focus of this study is the emerging markets with underdeveloped financial systems operating in a broad-based liberalized economy. Given this focus, the researcher designed tests of the role of public equity market and corporate bonds in the private sector company's financing in emerging market economies.

This study therefore, investigates factors inhibiting participation of private sector companies in Tanzanian capital markets and uses private sector companies' responses to test going public decision environment in Tanzania which are only relevant and applicable to registered profit making private sector business establishments. Theories selected to be tested include: portfolio diversification; information disclosure; reputation and credibility; confidentiality; control; windows of opportunity; external monitoring and corporate governance; and, cost of capital.

3.6 Relevant Empirical Studies

Why some private companies go public and others remain private is still something of a mystery. In the last ten years, a flurry of theoretical papers have explored going public decisions and produced many interesting hypotheses. However, few of these hypotheses have been tested (Rosen, Smart and Zutter 2005). Going public is a process which requires several key decisions to be made by the issuing company and its advisers before floating the company on the stock market is completed (Meryah & Pandyal, 2003). In this section, therefore, the study reviews some empirical studies which have been undertaken to explore company's going public decisions from developed and emerging market economies.

Pagano et al. (1998) conducted a study using a large database of private firms in Italy, to analyse the determinants of firm's going public. The study compared ex-ante and ex-post

characteristics of IPO's with those of private firms, using a sample of 69 companies for the period 1982–1992, based on two models: 'Costs' and 'Benefits' of going public models. Findings revealed that companies appear to go public not to finance future investments and growth, but rather to rebalance their leverage and allow managers to liquidate their positions. Although these findings may hold for the sample and period considered, it is not necessarily that their results automatically represent the situation in other countries and periods, particularly, the emerging market economies of LDCs like Tanzania after experiencing global economic and financial crisis. The sample size is relatively too small to be able to determine the real factors motivating a company's going public decision in a developing country like Tanzania where economic, financial and legal environment may not be so friendly to Private Sector Company's long-term financing as compared to developed economies.

Kim and Weisbach (2005) investigated the question of whether raising capital is an important reason why firms go public. The study used a sample of 16,958 IPO's from 38 countries for the period from 1990 to 2003. Data were obtained from Global New Issue Database/Securities Data Corporations (SDC) and were analysed using Univariate and Multivariate tests. Findings revealed that, firms offering primary shares appear to be associated with a higher demand for capital than firms offering secondary shares to the public. Although, their findings represent the use of equity financing by firms from 38 countries around the world for investment purposes, there are still other things that need further investigation. For example, there is need to analyse the extent to which these firms do so and factors that determine differences in equity markets across different countries. Therefore, based on investigative questions raised in this research, it is recommended that, a survey approach could have been a more focused approach in revealing the real feelings and perceptions of company directors in turning their private companies into public companies.

Boehmer and Ljungqvist (2004) conducted a study to test theories of when companies go public using a survey approach. The study tracked a set of 330 privately-held Germany firms which between 1984 and 1995 announced their intention to go public to see

whether, when and how they subsequently sold equity to outside investors. Findings revealed that: More companies will go public when outside valuations are high or have increased; companies prefer going public when uncertainty about their future profitability is high; and, firms whose controlling shareholders enjoy large private benefits of control are less likely to go public. However, these findings are generalized without considering different characteristics that exist among privately-held firms i.e. size, age, nature of business, industry sector, ownership structure, development stage, etc. Also, there is need to understand the socio-economic factors underlying going-public decisions. This is important, not only from firm's viewpoint (when should the firm go public?), but also from regulatory agencies, which can affect going public decisions of firms through the set rules and regulations.

Brau and Fawcett (2006) conducted a survey of 336 CFOs for the period 2001–2002 to compare practice to theory in Firms' going public decision using: Timing; underwriter selection; under-pricing; signalling; and the decision to remain private as testable variables. The survey used Dillman (1978) Total Design Method. Findings revealed that the primary motive for going public is to create public shares for use in future acquisitions. The reason for remaining private is to preserve decision-making control and to avoid ownership dilution. These findings indicate that insiders (CFOs) of private firms have a strong preference to remain private and are mostly concerned with issues that can affect their personal interests/benefits. However, these findings may not always reflect the position of other stakeholders like shareholders.

Bharath and Dittmar (2007) investigated how US firms weigh costs and benefits of being public in the decision to opt-out of public market and go private. The study employed a comprehensive sample of 1,061 firms from 1980–2004. Specifically, the study examined how these firms differed over their public life and used Multivariate analysis approach. Findings support the importance of costs and benefits in the process of being a public firm. Particularly, there is strong evidence from the findings to support the importance of theories that stress information and liquidity considerations. However, one can argue that,

the results imply that it is not only the path that a private company takes but factors inherent and observable about the company at the time of going public that matter.

Marchisio and Ravasi (2001) investigated how going public sustains search for new competitive advantage and reinforcement of consolidated positions for family-owned companies. The study used a survey approach for 74 Italian IPOs by combining evidence from six case studies of family companies going public for the period 1995-2000. Findings reveal that, reasons for going public are (arranged in order of importance): To finance growth and development; to improve company's image and status; to increase company's visibility; and to diversify sources of finance. However, these findings did not consider the question of corporate governance to family owned companies which inevitably brings with it the need for control on management and information disclosure.

Mayur and Kumar (2006) conducted a study to examine the determinants of going public decision of Indian companies using Probit regression model. A sample of 393 IPOs and 3,726 private companies were derived from CMIE-Prowess Database for the period 1999–2005. The sample included companies that were eligible to do an IPO but remained private during the study period. Variables used were: Age; size; profitability; level of disclosures; leverage; risk; capital expenditure; sales growth; cost of credit; and industry group. Findings revealed that: Size and profitability were positively related to going public decision; while, Age, leverage and disclosure were negatively related. This study was fairly extensive although a different result could have come-up if a survey approach was used to gunner opinion from different firm's stakeholders.

Smith (2006) analysed factors that hinder development of an effective IPO market within the Czech Republic in 2006. Specifically, the Czech Republic wanted to find out, with all the potential benefits that IPOs may add to its economy, why it had only one IPO since the fall of communism, and why it had not been more active in pursuing a healthy and robust equity market? The study used secondary data based on Czech Republic printed economic and financial performance reports. Findings revealed that, the non-existence of IPO market in Czech Republic is due to: a weak market structure and an inefficient

trading system; problems of regulation and cases of unethical fraud and corruption that hampered the investing climate; inefficient bankruptcy laws that does not protect investors' rights as creditors to the listed firms; lack of disclosure and transparency of listed company's' financial situations; and leftover communist mentality and fear of the unknown which remained in the minds and hearts of many Czechs' who were looking to find additional sources of capital for their firms. The environment in which this study was conducted has similar social-economic characteristics to most of LDCs like Tanzania. However, a survey approach could have been a more suitable methodology in trucking down the opinion of private companies.

Bancel and Mittoo (2007) conducted a survey study for 79 CFOs from 12 European countries about the determinants of going public and exchange listing decisions. Testable firm variables used in the study were: Age, size, ownership structure, growth, monitoring, visibility, and prestige – both before and after IPO for the period 1994-2004. Findings revealed that, CFOs consider enhanced visibility and prestige; and financing for growth as the most important benefits of an IPO. However, their views on other motives vary across firms and countries. Large firms consider outside monitoring as the most important benefit; small firms go public primarily to raise capital for growth; and family controlled firms view IPO as a vehicle to strengthen their bargaining power with creditors without relinquishing control. In conclusion, the study suggested that going public decision is a complex decision that cannot be explained by one simple model because firms seek multiple benefits in going public. The main shortfall in this survey study was the sample size of only 79 CFOs from 12 different countries. This is a relatively small sample considering that the study findings were represented by an average of only seven CFOs from each country.

Gopalan and Gormley (2007) investigated the role of public equity markets in firm financing by studying firms' going public decisions in India. The study identified the characteristics of 1,189 Private firms that chose to go public during the period 1992 – 2002. Findings revealed that, firms going public after liberalization are smaller, younger from industries with greater investment opportunities, and less likely to be affiliated with

a business group than other private firms. Firms also exhibit significant increases in capital expenditure and sales around the time of their IPO. Overall, the evidence suggests that public equity markets play a significant role in expanding access to finance for small, young firms in emerging markets.

Yang-Pin (2007) examined the determinants of IPOs in Taiwan for the period 1989 to 2000. The study sample consisted of 383 Firms that issued IPOs and 522 Firms that met listing requirements but chose not to go for IPOs in the period. Probit regression was employed to estimate the probability of IPO. The study reveals strong evidence that IPOs are not motivated by financing needs, that larger and profitable firms are more likely to list equity and that venture capital provides certification to firm credibility. Moreover, the findings provide support for information asymmetry, listing costs, liquidity, owners' diversification desire, timing, and facilitation of M & A as factors influencing IPO decisions.

Hale and Santos (2006) investigated the potential benefits and costs for the decisions of non-financial firms to access the public bond market for the first time. The study used Securities Data Corporations' (SDC) Domestic New Securities Database in USA for the period from 1981 through 2002, using Multivariate Analysis method. Findings revealed that, bonds are subject to more under-pricing in the bond market. However, findings also show that it is beneficial for firms to enter the public bond market as it leads to a reduction in their cost of external funding. The major shortfall with this study is that it does not distinguish IPO bonds from bonds of seasoned issues; or, corporate bonds from Government bonds (Treasury bills).

3.6.1 Empirical Studies from sub-Sahara African Countries

Minja (2008) examined pricing and performance of seven securities listed at the Dar es Salaam Stock Exchange (DSE) for the first ten years subsequent to their initial listing and trading. The study used session closing prices and trading activity for the first two years of trading for seven IPOs. Findings revealed that, with the exception of one stock, the

gross returns were found to be positively correlated with time and revealed patterns that are positively similar over the two years, with high a level of statistical significance.

Mlulla (2007) assessed the Tanzania capital market situation in order to establish its position in the prospective region (East African) stock markets. The study employed key informative interviews, desk review and content analysis in describing and comparing the traditional and institutional characteristics of the three East African Stock markets (Kenya, Tanzania and Uganda). Findings revealed that there are latent factors that contribute to low listing at the DSE in Tanzania; these include, among others, fear of dilution of ownership, fierce competition that triggers fear of disclosure and thus low incentive for listing, and the high costs of IPO.

CMSA (2006) conducted a study to review and assess the level of development so far attained with a view to recommend an appropriate capital markets structure for Tanzania. The study combined then use of literature review, survey and study visits. Self-administered survey questionnaires were administered to 300 entities for the year 2004. 146 questionnaires were filled and returned and 71 interviews were conducted. Statistical tests were carried out using Mann Whitney U-test and Kruskal Wallis test. Findings, from Small Medium Enterprises' (SME's) context revealed that, there are serious problems with corporate governance of SMEs. Most respondents indicated that, SMEs operate in closed circuits, barely disclosing important information to other stakeholders. Most SMEs felt that their source for capital finance should be banks although in practice banks have been sidelining them. However, some SMEs felt that capital markets should be the alternative avenue for long-term funding. The study findings provide a very good base for new investigation on the factors influencing SME's participation in capital markets in Tanzania.

Mashaushi (2006) investigated the possibility that liquidity data contain useful information beyond what is already contained in stock prices. The study constructed portfolios of stocks using repeatedly drawn samples of 350 FTSE 100 stocks. The study then tested hypotheses focusing on regularities of stock return series, abnormal returns

and economic returns. Findings revealed that, returns to technical trading strategies vary across market segments; in particular, decreasing in the bid offer spread such as predictability is higher for stocks with larger bid-offer spreads and lower for stock with smaller spread. A possible explanation for this effect could be that the higher risk associated with larger spreads is compensated with higher returns.

Singh (2005) examined how listed firms in Ghana financed their growth, using residual estimation of equity financing variable as external variable vs. internal finance variable. The study covered the period between 1995 through 2002. Findings revealed that new issues of equity finances 41% of the firm's growth in total assets.

Satta (2004) analysed the efficiency of the financial system in mobilizing financial resources and its ability to allocate these resources to productive investment. The study aimed at contributing to the on-going debate by determining measures that should be implemented to improve micro and small-scale enterprises (MSEs) access to finance. The researcher administered semi-structured questionnaires and conducted face-to-face interviews for a sample of 139 MSEs in 9 regions in Tanzania. Data analysis was done by using an integrated approach to evaluate MSEs financing schemes run by banks in Tanzania. The study also computed three widely practised and accepted variables (Average loan size to per capital, Depth of outreach index, and Sustainability index) to determine the depth of outreach and sustainability of the financing schemes. Overall, findings revealed that financial institutions in Tanzania, despite of undergoing various changes, have not improved the provision of financial services to a broader clientele.

Mwanjabala (2003) conducted a study to find the extent of relationship between downsizing and measures of production technology and HRM practices. The study used a sample survey method with a sample of 30 firms selected from a population of 300 manufacturing firms using systematic random sampling. The study employed multiple regression analysis to examine the relationship between downsizing as a dependent variable and a joint set of variables of production technology as independent variables. Findings revealed that technology is more related to downsizing than HRM practices.

This could be attributed to the fact that some firms, particularly those that entered into joint ventures with foreign companies, have significantly modernized their production equipment and are performing well.

Marone (2003) assessed the importance of Lusaka Stock Exchange (LuSE) in the process of resource allocation, mobilizing domestic savings and attracting private foreign investment. The study used printed materials and interviews with local investors for the period from 1994 through 2001. Findings revealed that LuSE has little effect on the broader Zambian economy. In conclusion, the researcher suggested creation of a regional stock market to widen the pool of stocks available to the public and increase liquidity and competitiveness. Though the suggested way-forward may be considered as a solution, there is still need for further studies to be conducted in other African countries to determine the contribution of their respective capital markets to national economic growth. The objective is to determine factors inhibiting active participation of issuers and investors of securities in African Capital markets and hence its contribution to national economic growth.

Chijoriga and Chalu (2002) examined how capital markets can influence disclosure for companies listed in capital markets and those which have not been listed. The study used the Mann-Whitney test to examine four variables: mandatory and voluntary disclosure; timeliness of the financial disclosure; kind of the auditor's opinion; and changes in the accounting policies used. The results revealed that the introduction of capital markets has not significantly improved the quality of financial information disclosure. The study results considered the following to be the reasons. First, because Tanzania is still in a transition from the command economy, the capital market is not well developed. Second, the financial reports are only read by directors who knew what was happening in the firms while only few investors read the audited financial statements.

Inyangete and Warsame (2002) analysed the benefits from international portfolio equity investments in African Stock Markets. Specifically, they wanted to see if increased international equity investments lead to increased capital to domestic firms, accelerate

privatization, reduce risk premium and consequently reduce corporate governance. The study used two methodological approaches: logarithmic or geometric returns computation method and single index model estimation to predict the variance – covariance matrix method. Findings revealed that, international investors can reduce investment risks in Africa by forming well-diversified portfolios that lower investment risks due to low correlation of returns among African stock markets.

Mohamed and Yadav (2002) investigated the association between volatility around earnings and dividend announcements, and the amount of preannouncement information and the precision of the announced news for a sample of 212 firms drawn from the London Stock Exchange for the period of January 1990 to December 1998. The study used OLS to estimate parameters of the return generating process for the entire sample securities. Findings revealed that small firms, with relatively less pre-announcement information, experience high levels of uncertainty before announcement.

Wagacha (2001) examined the company's attitudes towards their decision to list or not to list in Kenya's capital market while they are qualified to list. The study used a questionnaire survey approach with the following variables: Control; regulations; taxation; awareness; facilities for small companies; corruption; and bureaucracy/paper work. The study was conducted for 56 firms (32 listed on the Nairobi Stock Exchange (NSE) and 24 unlisted) during 1999. Findings revealed the following: Lack of public awareness on NSE operations is a major hindrance to corporate participation in the stock market; fear of loss of ownership and control is a leading deterrent among the unlisted firms; firms fear the taxation consequences of listing and strictness of NSE listing regulations; NSE continues to utilize manual trading and clearing/settlement systems, which are inherently slow and costly; and the existing low liquidity, especially in secondary bonds and equity markets has a negative trend in the overall development of the market.

Ziorklui et al. (2001) examined constraints to the development of capital markets and their linkage with the real sector growth in SSA countries in general and in Tanzania in

particular. A survey study approach was used for 60 enterprises located in DSM where the largest number of market activities is performed. Findings showed that Tanzania aggregate saving, which was on decline before the reform, had increased during the reform period. However, contrary to expectations, the policy changes have not been accompanied by increases in credit allocation to productive sectors and, particularly, the private sector. Also, the introduction of high-yield government short-term Treasury bills increased the demand for Treasury bills at the expense of long-term financing of private sector.

In 2001, Mohamed conducted a study which employed the extended GARCH model, developed by Jones, Lamont and Lumsdaine (1998) to examine the reaction of stock prices to the release of earnings and dividends news. Earnings and dividends news releases are of interest because they have previously been found to cause substantial stock returns volatility. The study used a sample of 212 firms, drawn from the London Stock Exchange, for the period of January 1990 to December 1998. The study used OLS method to estimate the parameters of the study conditional mean equation. The study findings revealed that, about 91 percent of sample stocks did not experience significant increases in volatility on post-announcement days. Thus, announcement-day shocks do not appear to increase volatility on subsequent days. Also, the study found no evidence in favour of the existence of heterogeneous degrees of persistence in volatility for positive and negative announcement shocks.

Lack of access to long-term finance is arguably a major impediment to sustainable investment and economic growth in developing countries and, particularly, for SSA countries. This argument derives from theoretical and empirical studies which not only show a positive relationship between long-term credit and economic growth, but also suggest that long-term credit is associated with higher productivity, investment and growth (Boyd & Smith, 1997; Caprio & Demingue-Kunt, 1998; Levine & Zervos, 1996). Mashindano (2003) also reveals that, Tanzania is endowed with an abundance of productive natural resources and enjoys a prime geographical location within Africa. However, due to capital and skills deficiencies, Tanzania lacks the capacity to fully

develop its existing productive resources to attain sustainable economic growth and raise living standards for its people. Mashindano (ibid) agrees with Mbelle's study (2005) which revealed low lending to productive sectors compared with the dominance of government securities holding. For example, during the period 1996 to 2004, while agriculture accounted for about 50 percent of GDP, it received less than 10 percent of commercial banks loans throughout. The services sector expanded to claim a higher GDP share.

From the above reviewed empirical studies, it shows that there is a clear link between companies' going public and economic growth. While the reviewed empirical studies provide considerable insight into going public decision, it is however, difficult to argue that, results of the above studies can be generalized to majority of private sector Companies' environment in emerging market economies of LDCs like Tanzania. For example in developed countries, tax and regulatory environments are different; the stage of development of capital markets and information technology is far advanced. Apart from studies by CMSA (2006), Wagacha (2001), and Ziorklui et al. (2001), which were conducted in Tanzania and Kenya, there are no other similar studies which have been conducted in Tanzania, to investigate factors limiting active participation of private sector companies as issuers of securities in the national capital market.

This study, therefore, provides an opportunity of filling-up the knowledge gap by determining the factors responsible for low participation of private sector companies in using capital markets in Tanzania as issuers of equity shares and corporate bonds. The study is also different from the already available studies in terms of time period covered, research objectives and testable hypotheses.

3.6.2 Empirical Studies Using Ordinary Least Square (OLS) Estimator

Several empirical studies in capital markets have confirmed the theoretical predications of going public decisions (Favara, 2003). In an influential paper, King and Levine (1993) use Ordinary Least Squares (OLS) estimates on a large cross-section of countries and find that indicators of capital markets and banking development are good predictors of

future economic growth. Similarly, using OLS on cross-section data, Levine and Zervos (1996 and 1998) find that capital markets and other measures of financial development are closely associated with higher income per capita. Using extreme-bound analysis, these authors (ibid) even conclude that capital markets and banks are robust determinants of long-run economic growth.

Despite the econometric assumptions associated with multiple linear regression models using OLS estimator, credible empirical findings are reported in a series of more elaborate analyses by well-known researchers.

Mikko (2002) investigated the relationships between family firm performance as dependent variable and governance and strategic decision-making quality defined in terms of decision quality, decision commitment and trust as dependent variables. The study tested hypotheses using cross-sectional survey data from 192 family firms in Finland. The study used multiple regression analysis to test the hypothesized relationships and OLS estimator for the regression coefficients. Findings revealed that contractual and relational governance systems coexist, reflecting the unique characteristics of family firms. Results indicated that the two systems of governance complement each other, serving to improve the strategic decision quality of family firms and the commitment of family firms to these decisions and so ultimately improving overall firm performance. The lowest R^2 was .01 testing the board counsel on decision quality and the highest R^2 was .24 testing the effects on board composition.

Anil and Kapoor (2008) conducted a cross-sectional empirical survey study for CNX-IT listed companies in India. The study investigated the dividend payment decisions of Indian information technology sector using multiple linear regression model and OLS estimator for the regression coefficients. Key variables used in the study were: dividend payout ratio as a dependent variable and anticipated earnings, liquidity, corporate tax, risk, and growth opportunities as independent variables. Findings revealed that liquidity is an important determinant of dividend payout ratio which is an indication that a good liquidity position increases firm's ability to pay dividend. According to Anil and Kapoor

(2008) study, R^2 value revealed that the model used explained only 27% of the dividend payment decision of Indian IT sector. However, a low R^2 is not uncommon in social science studies, especially in cross-sectional analysis. According to Adelegan (2007), on the basis of low adjusted R^2 value, one may be tempted to conclude that the used regression model is not suitable in terms of the explanatory power. To Adelegan (ibid), this temptation should be resisted since it is not unusual for R^2 values which results from regression equations dealing with different variables to be generally low. Walker (2004) also argues that, econometric regressions should not be heavily judged due to a low R^2 value. For example, if $R^2 = 0.12$, that means 12% of the variation is explained, which is better than 0% before regression.

Jiming, Chenguin and ZhaoHua (2010) conducted a survey study to examine the impacts of debt financing on the firms' investment decisions by employing the method of multiple linear regression for 60 Chinese real estate listed companies. Investment decision was used as a dependent variable and asset liability, net asset yield and firm size as explanatory variables. OLS was used to determine the relationship between investment decision and the explanatory variables. Findings revealed that, there is a negative relationship between debt financing and investment behaviour in both firms with low-growth opportunities and high-growth opportunities and that this negative effect is significantly stronger for firms with low-growth opportunities than those with high-growth opportunities. The results also revealed that, there is a positive relation between debt financing and investment behaviour in firms with mid-growth opportunities and operating performance.

Adelegan (2007) examined the relationship between dividend and debt policy and the value of the firm using 85 manufacturing firms in Nigeria. The study used multiple linear regression analysis model estimated using OLS method. The dependent variable used in the regression was the spread of value over costs while the explanatory variables included dividends, interest, earnings and investment expenditures. The study also introduced dummy variables in the regression analysis for 14 industrial sectors. Findings revealed a

positive relationship between dividend and firm's value and negative relationship between debt and firm's value in both small- and big-sized firms.

Beck, Demirgue-Kunt, Levine and Maksimovic (2000) explored the relationship between financial structure – the degree to which a financial system is market-or bank-based- and economic development. The study used OLS technique on cross-country data to assess whether economies grow faster with market-or bank-based systems. The financial structure and economic growth analysis used real per capita GDP growth for 1980 – 1995 as dependent variable and four explanatory variables: activity; size; efficiency; aggregate; and, finance-dummy. Results gave overwhelming evidence that the overall level of financial development and the legal environment in which financial intermediaries and markets operate, critically influence economic development. This is consistent with both the financial services and the law and finance views.

Menyah and Paudyal (2002) analysed how the major decisions made by issuers affect the costs of an initial public offer using OLS estimation technique. Direct cost was used as a dependent variable and was calculated as the sum of fees and commission paid to sponsors, brokers, accountants, lawyers, statutory charges and other promotion expenses such as printing and marketing costs in connection with the IPO issue. Findings revealed that the total issue costs increased in proportion of shares sold but decreased with the quality of the sponsors, the amount raised, the price share and the use of a placing.

Avdija (2010) conducted a survey study using OLS technique and a cross-sectional design to determine the extent to which police behaviour affects citizens' attitudes toward the police. The study used attitudes toward the police as dependent variable consisting of four dimensions: trust; fear; satisfaction; and, confidence. Police behaviour was treated as an explanatory variable measured using 22-point Likert scale items. Findings of the study concurred with prior studies that police behaviours negatively affect citizens' attitudes toward the police (Hurst & Frank, 2000; Stoutland, 2001).

Edison, Levine, Ricci and Slok (2003) conducted a study using 57 countries to investigate the impact of international financial integration on economic growth and also to assess whether this relationship depended on the level of economic development, financial development, legal system development, government corruption and macroeconomic policies. The study used three estimation techniques to assess the relationship between international financial integration and economic growth. The three techniques included: OLS regressions; Two-stage least squares instrumental variable estimator; and, Generalized method of moments (Dynamic Panel Model). Findings revealed that, OLS results were consistent with previous cross-country growth regressions. The two-stage least squares regression results produced the same sign as the OLS regressions. Panel model estimates suggested a significant negative relationship between inflation and economic growth.

Schindele and Perotti (2002) conducted a study to investigate the determinants of underpricing at initial public offerings in Hungary IPOs market in 1990 – 1998, a period of transition from socialist to market economy and of immaturity of the domestic capital market. The study estimated the relationship between underpricing and the explanatory variables using OLS methodology. The dependent variable was defined as the percentage change between the offer price and the first day closing price of the trade. Findings revealed that, political issues played a significant role in the process. The results found greater discount at privatization IPOs than at private issues and positive relation between underpricing and the proportion of shares offered for compensation coupons.

Favara (2003) re-examined the empirical relationship between financial development and economic growth. The study was based on analysis by exploiting the single cross-sectional variation in the data using OLS estimation technique. The study covered countries from OECD (23), Latin America and Caribbean (22), Middle East and Asia (18) and Africa (31 – Tanzania inclusive). The dependent variable used was the log difference of GDP between 1960 and 1998 and the explanatory variables were period averages measured at the beginning of the period. Findings revealed that, the correlation

in the financial development and economic growth was positive and statistically significant. These results reinforce the findings of King & Levine (1993).

Billmeier and Massa (2007) assessed the macroeconomic determinants of stock market capitalization in 17 countries in the Middle East and Central Asia. The study used OLS estimation regression model based on stock markets capitalization of GDP share as a dependent variable and income, investment, inflation change, domestic credit and stock traded value as explanatory variables. Findings revealed that, both institutions and remittances have a positive and significant impact on market capitalization and in resource – rich countries. Also it was revealed that stock market capitalization is mainly driven by oil prices.

3.7 Conceptual Framework and Research Hypotheses

Given contradicting theoretical propositions and the cited shortfalls in the reviewed empirical studies regarding going public decisions, a deductive research approach, which is based on a survey study, is used to fill the knowledge gap. The main research question is: *"What factors influence participation of private sector companies in emerging capital markets?"* More specifically, the study is about determining the extent to which *'Going public environment'* (as measured using three going public decision variables: going public rules and regulations; going public costs; and going public company's ordinance compliance requirements) is associated with *'Private sector Company's decision to participate in Tanzanian capital markets'* (measured based on the level of interest the company has considered in raising capital through capital markets in emerging market economies).

Besides the theoretical and empirical literature on the attributes which influence a private company's participation in emerging capital markets, an in-depth review of theory and empirics suggests the following general relationships and associations amongst the study concepts:

Going public factors (Rules and regulations; Costs; and, Company's ordinance compliance requirements) and Companies' going public decision. The above relationships and associations relate to two concept-variables: *Company's going public environment (X)* and *Capital market participation (Y)* in which, none of them can provide the possibility of empirical observation. Hence, the study concepts are transformed into statistical/operational hypotheses.

3.7.1 Rules and Regulations and Going Public Decision

The legal framework for securities rules and regulations in Tanzania considered in this study centred on CMSA Act (cap.79). The Act was enacted for the purpose of promoting and facilitating the development of an orderly, fair and efficient capital market and securities industry in Tanzania. So far, CMSA has already made more than 14 sets of regulations and DSE has made several sets of rules to carter for various issues affecting the industry (Kibola, 2008). This study assumes that, stringent regulations and disclosure rules and company's confidentiality syndrome will force companies from unveiling information whose secrecy may be crucial for their competitive advantage (Yosha, 1995a; and Chemmanur et al. 2006). According to Bhattacharia (2006), there is global evidence that enforcement of securities laws that improve disclosure is the most effective in improving capital markets.

This assumption leads to the following research hypothesis:

$H_{a,1}$: Going public rules and regulations are negatively associated with company's decision to go public.

3.7.2 Costs and Going Public Decision

Besides the initial under-pricing of shares, going public implies considerable direct costs which include: Underwriter/brokerage commissions and registration fees; certification and dissemination of accounting information; and preparation, printing and release of prospectus. In addition, there are additional after going public recurring costs which cover costs such as annual audit fees, increased payroll costs for financial personnel, public relations, director liability insurance, and other costs unique to a public company.

These expenses do not increase proportionally with the size of the IPO hence; the study assumes that, companies issuing a small size of IPOs will be deterred from going public since the costs will weigh relatively more on their side.

This assumption leads to the following research hypothesis:

$H_{a,2}$: Going Public costs are negatively associated with company's decision to go public.

3.7.3 Company Ordinance Compliance and Going Public Decision

The Companies Act, 2002 (cap 212) is the law which regulates a wide range of corporate issues including: Formation of private as well as public companies and all matters relating to issuance of securities; rights of shareholders; prospectus' contents; obligations of directors and governance issues. Given this fact, therefore, a thorough understanding of the legal environment, underlying going public decision, is important not only from company's viewpoint (under what legal status should it go public), but also from the viewpoint of the regulatory machinery, which can affect the going public decision of a company through its legal compliance requirements. The study assumes that, when going public, legal compliance requirements environment is so demanding and unfriendly, more companies prefer to remain private.

This assumption leads to the following research hypothesis:

$H_{a,3}$: Going Public Company Ordinance compliance requirements are negatively associated with company's decision to go public.

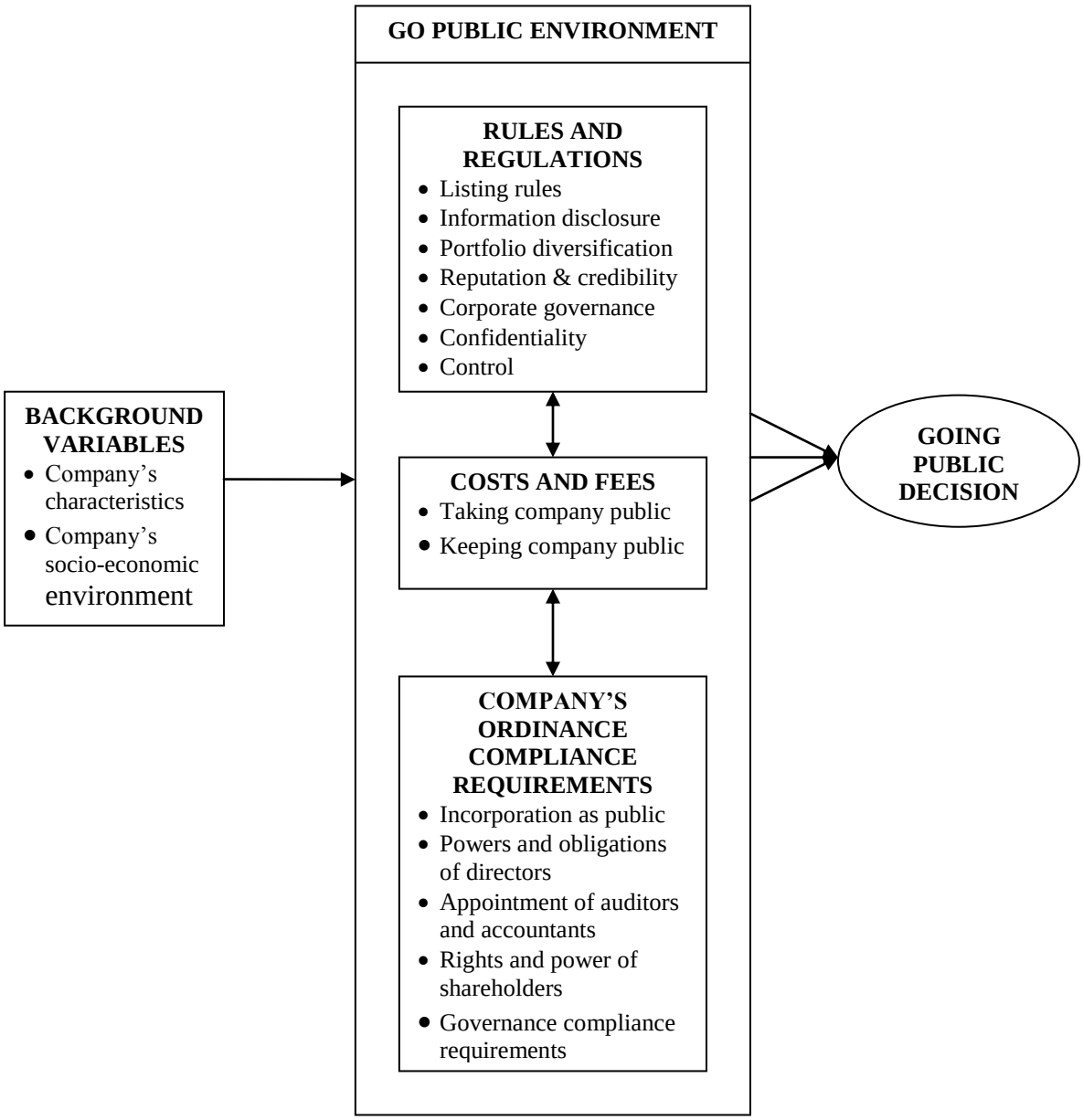
Table 3-1 gives a summary of the conceptual research hypotheses of the study.

Table 3.1: Summary of research hypotheses.

No.	HYPOTHESIS DESCRIPTION
1	Going Public rules and regulations are negatively associated with company's decision to go public.
2	Going Public costs are negatively associated with company's decision to go public.
3	Going Public Company's Ordinance compliance requirements are negatively associated with company's decision to go public.

Apart from going public factor variables (as predictor variables) considered in the study, two more sets of control variables, which are relevant to going public decisions, are simultaneously considered as shown in figure 3.3. The background or, otherwise called control, variables include; company characteristics and socio-economic environment. Company characteristics comprise of company's industry sector category, age, size, development stage and ownership structure and control while, socio-economic environment comprises of knowledge on going public process and going public costs and benefits.

Figure 3.3 Conceptual framework



Source: Author

3.8 Summary

This chapter has reviewed, in detail, theories of going public decisions. The essential links between capital markets and economic growth and how they provide network mechanism in financing private sector companies with potential to going public are well reviewed. The review also interprets the relationship and association between costs and benefits models and various theories of going public. Capital markets legal and regulatory framework in Tanzania is also reviewed in detail. The chapter further explores various empirical studies on companies' going public decisions from developed and emerging market economies. In finding out the relationships and associations, the concept variables and control variables are considered simultaneously, using a multiple linear regression model, and an OLS is used to estimate parameters which are used to test the research hypotheses. The chapter provides a basis for developing the next chapter on research methodology.

CHAPTER FOUR

RESEARCH METHODOLOGY

4.1 Introduction

The focus of the conceptual framework and research hypotheses of the study are based on two major issues. The first issue is the existing contradiction between the current public debate on capital market participation in Tanzanian economic context as reviewed in chapter one against theories on going public decision as reviewed in chapter three. Second issue is about the shortfalls cited in the reviewed empirical studies regarding perception of private companies' going public decision.

This chapter discusses and elaborates the research methodology that includes detailed explanation of the research design. More specifically, the chapter elaborates on the studied population and areas of research design including; sampling plan, operational design, data analysis design, and data quality control. The research design used here is considered appropriate for testing the conceptual research hypotheses raised in the previous chapter. The chapter contains eight sections including the introductory part covered in section one. Section two focuses on research design approach while section three is on data collection and it describes the characteristics of the target population, sampling plan, questionnaire design and administration and data collection procedures. Section four gives a detailed explanation on operationalization of variables. Data processing, analysis and presentation and data quality control are explained in section five and six respectively. Section seven focuses on operationalization of hypotheses while section eight summarizes the chapter.

4.2 Research Design

The study objective was to determine factors influencing participation of private sector companies in emerging capital markets. The research design adopted in the study is analytical survey design. According to Ndunguru (2007), analytical survey design is appropriate for this kind of study since it emphasizes on logic of deductive orientation,

reliability in data collection, and statistical rather than physical control of extraneous variables. The philosophy guiding this study was deductive approach which starts with testing the already developed theories of going public decision, which are in line with positivist approach and employs a multiple linear regression analysis model. The approach ensures a high level of objectivity embodied in sampling, data collection procedures, quality control measurement and data analysis.

More specifically, the study used a cross-sectional sample survey approach because of its greater flexibility in terms of time and resources. The cross-sectional approach was compatible with this research design strategy because it was based on a representative sample of respondents drawn from a population at a particular point in time and provided a snapshot at the given point in time. The approach involved a number of Private Companies from the private sector and entailed frequent researchers' consultations with the companies at various levels of its intensities. Such consultations required an intensive questionnaire survey with in-depth interviews.

4.3 Data Collection

The study was carried out in Tanzania which was considered to be an emerging market economy with an emerging capital market. It was considered to have an emerging capital market because, the country has embarked on economic reform programmes that are expected to lead it to a stronger and more efficient and transparent economic performance, which are pre-requisite requirements for a developed capital market. Tanzania was also chosen because of the contradictions that exist in the on-going debated propositions on capital markets participation which are currently raised by the public and the reviewed theories of going public decision.

Since the study benefited from an extensive theoretical and empirical literature review from different experiences elsewhere, it enabled the researcher to develop a fairly comprehensive structured questionnaire. As a result, the questionnaire survey strategy allowed collection of a large amount of data from a sizeable population in an economic way. In addition, an in-depth interview with an interview guide was employed so as to

cover descriptive issues that could not be adequately handled except in an interactive interviewee-interviewer format. The questionnaires were administered during January - July, 2009.

4.3.1 Population and Sample

The target population of the study consisted of registered profit making private companies from the private sector as classified by the National Bureau of Statistics (NBS) and in accordance with the International Standard Industrial Classification (ISIC) Revision 3 *(Appendix-A1)*. Industrial classifications are an important part of financial economics (Kahle & Walkling, 1996). According to Kahle and Walkling (ibid), at least 42 articles published in *"Journal of Financial Economics"* or *"The Journal of Finance"* from 1992 – 1995 use industrial classifications. Particularly, industrial classifications are important in: identifying company's control; describing the industrial structure of the sample of interest; and, to restrict the sample of interest to a select set of companies' industrial sector.

The population strictly targets only Private profit making companies from Dar es Salaam, Arusha and Kilimanjaro regions which meet the requisite requirements for public issuance of shares/listing at the DSE which include: at least three years existence; incorporated in Tanzania; having private share capital and a solid management team; and a history of strong financial performance. The three regions were selected because they account for over 61% of all Private profit making and non-profit making companies in Tanzania mainland (CRE, 2007). The other reason prompting the choice of these three regions is because they are ranked in the survey conducted by NBS (2007/2008) as the leading regions with the highest number of private profit making companies in Tanzania mainland. The total number of private companies in these three regions is 5,713 (64.8%) out of 8,812. The number enabled the researcher to have a fairly big sampling frame for selecting a representative sample and enhanced data content validity in reaching valid conclusions.

The Registrar of Companies in Tanzania (BRELA) database is considered to be the most appropriate sampling frame for a survey study of this nature. However, the database is still at the initial stages of its development. In this situation, therefore, there was no reliable directory that could be used from BRELA. Hence, a more reliable database considered for this study was the Central Register of Establishment (CRE) directory, compiled by NBS. CRE database is appropriate for two reasons: First, it contains most of the registered companies which are currently functioning. This would not be possible to verify whether a registered company was still functioning if the study opted to use BRELA's database. Second, information contained in CRE database is reliable because it is from a very recent extensive survey study which was done by a government institution.

Names of registered profit making private companies were drawn using a random sampling approach from CRE Directory. Details contained in this Directory include: names of companies, their physical locations, date of establishment, main industrial activities, types of ownership structure and control, and size of the company based on the number of full-time employees. CRE Directory is supplemented by Tanzania National Business Directory (TNBD), 2008 edition, compiled by New Habari (2006) Ltd. TNBD contains more than 5000 companies with information on their current physical addresses which made contact with companies much easier when the survey started.

The study population from CRE Directory is divided into homogeneous sub-groups (strata) of 16 industry sectors based on ISIC classification (CRE, 2007) *Appendix-A_2*. A total number of 285 companies from 5,713, representing 5% of all private profit making companies in the three regions from Tanzania mainland, were earmarked to be considered in the initial list of the sample size. The sample size was drawn from each stratum of the population, using a stratified random sampling method.

To control for variations in the sample and to make meaningful comparisons, the sample of companies was randomly selected based on three criteria. First, companies accepted in the sample size were only those registered as Private Limited Companies by share capital and incorporated in Tanzania mainland only. This allowed for testing theories, on-going

public decision, which are applicable to private companies' decision to go public. Second, consideration was for Private limited companies engaging five persons or more at a single location in the social and economic sectors of Tanzania Mainland. Companies engaging less than five persons were not considered. According to CRE survey (June, 2007), most small companies, engaging 1-4 persons, despite of having a considerable high labour turnover, are not registered and if they are registered, they are very volatile in nature and widely scattered with high death rates, hence difficult to capture. Third, a company selected in the sample had to be at least three years in operation prior to the time of the survey, in order to ensure it had already developed governance structures for going public.

Based on second and third criteria to which the information was available in CRE data base, 1,473 out of 5,713 companies, representing 26%, were disqualified from the study population. Hence, the total number accepted as the study population dropped to 4,240 companies and the new sample size was 212 (5%) companies. The sample size was then apportioned between the three regions as follows: Dar es Salaam 112(5%) out of 2,240 companies; Kilimanjaro 54(5%) out of 1,080 companies; and Arusha 46(5%) out of 920 companies. This sample size was considered to be statistically adequate for a survey study and, particularly, for reaching valid inferences and conclusions.

Stratified random sampling survey is appropriate in this study because: First, it guarantees that we are able to represent, not only the overall population, but also the key subgroups of the population, especially for small minority groups. Second, it is believed that, as private companies within the strata are more homogeneous than across the population as a whole, we can expect to have a greater statistical precision (less variance) when using stratified random sampling. Because we stratified the population, we were able to have enough cases from each group to make meaningful subgroup inferences. This approach assumes that different units in the population may have equal probabilities of being chosen. Using a stratified random sampling design ensures that particular groups within a population are adequately represented in the sample.

The unit of inquiry was the firm from the private sector and the targeted respondents were CFOs who were part of management team in decision making. A potential problem of enterprise surveys is that, in majority of cases the resulting data sets represent only firms that are willing to participate in the survey (World Bank, 2007). However, since non-response is from a randomly selected sample size, analysis and conclusions of the study findings are still valid and representative of the total population.

4.3.2 Questionnaire Administration

The study relied on primary data collected using an administered structured questionnaire *(Appendix-C)*. The development of the questionnaire was guided by: theoretical propositions currently raised by the public in the on-going debate on the perception of Tanzanian private sector companies to participate in capital markets; theories of going public decision presented in the previous chapters; research objectives and questions; and conceptual hypotheses. The questionnaire designed in English version, was thoroughly discussed with research supervisors and other researchers from the Faculty of Social Science and the Directorate of Research and Postgraduate Studies of Mzumbe University (MU) and Capital Markets and Securities Authority (CMSA) Dar es Salaam, for improvement.

According to Ndunguru (2007), a focused questionnaire in analytical survey elicits data on; inter alia, dependent, independent, moderating, intervening, and extraneous variables, and all other relevant aspects that enable theory testing. The questionnaire used in this study was divided into three main sections. Section A and B focused on information that investigated the company's characteristics and profile; and a company's perception on the services provided by regulatory authority and Government agencies. Data from section A and B were categorized as extraneous and measured within the sample to enrich the analytical approach used to determine the importance and obstacles inhibiting private sector company's participation in capital markets in Tanzania. Section C of the questionnaire was divided into two parts (I & II) of which Part-I solicited information on respondent's knowledge related to concepts of financing private company's operations and long-term investment. Part-II focused on going public environment issues as

explanatory variables in relation to company's participation in Tanzanian capital markets as a criterion variable. Also, in Part-II of section C the questionnaire solicited information specifically focusing on private company director's motivating factors to go-public or remain private.

The questionnaire was mainly designed in a 5-point Likert Scale and supplemented by interviews when further clarification was necessary. When an interview was necessary, it was administered by the research assistants using the questions in the questionnaire as interview guides. Specifically, the interview helped the researcher to gather views and perceptions as well as understanding of respondents' motives and interpretations of events. There are however, problems associated with interviewing, especially when cooperation is not forthcoming and untruthful answers are given. For these reasons, therefore, interviewing must be vouched against other sources such as observation and documentary evidence (CMSA, 2006). To minimize bias that could arise from interviewers favouring certain companies from certain industry sectors, research assistants were given identical instructions that directed them to leave interviewees to answer questionnaires independently and clarify only when and where the interviewee required such clarification.

A well-tested questionnaire is the basis of good data quality (Leeuw, Hox and Huisman 2003). It is therefore, imperative that, questionnaires developed for a survey are pre-tested before they are used to obtain facts. Pre-testing of the questionnaire is essential because it enables the researcher to refine and assess validity and reliability of data to be collected (Ndunguru, 2006). Five pre-test respondents were randomly selected from Ilala District – Dar es Salaam region and asked to read the accompanying introduction letter from the Ilala District Administrative Secretary (DAS) and fill the questionnaire according to instructions. Thereafter, they were asked to comment on whether: the introduction letter would motivate key informants to respond objectively to the questionnaire; instructions were clear; question items could easily be understood and were not ambiguous (having more than one meaning); could be answered without too much effort and were not intrusive.

Pre-test feedback from respondents on the clarity of the introduction letter and the questionnaire's instructions were used to modify the questionnaire in order to increase chances of high response rates and obtain high quality answers. All adjustments were made and draft zero questionnaires produced ready for the entire survey machinery including survey logistics. The data collection instruments were administered by the researcher, using two trained research assistants. Research assistants were trained for two days to acquire the basic knowledge in using data collection instruments.

4.3.3 Data Collection Procedures and Response Pattern

During the data collection phase, the following activities were performed: First, for each of the three regions (Arusha, Dar es Salaam and Kilimanjaro), a letter of introduction from Mzumbe University research clearance authority was handed over to the respective Regional Administrative Secretary (RAS) by the researcher personally. Regional authorities, upon being satisfied with the research clearance, gave the researcher an introduction letter addressed to each District Administrative Secretary (DAS) and copied to respective municipal or town council directors. Second, the researcher attached a list of names of companies selected from each of the respective districts to the introduction letter which was addressed to DAS from regional authorities. The introduction letter and the list of companies were handed over to district authorities. Upon being satisfied with the objective of the study, the district authorities gave the researcher an introduction letter addressed to each individual company participating in the research study.

During the data collection period, the researcher was helped by two research assistants, who are graduates recruited from College of Business Education (CBE) Dar es Salaam and Mwenge University, Arusha. The actual field work was organized such that: Data from Dar es Salaam region were collected from January to June, 2009; while data from Arusha and Kilimanjaro regions were collected from April to July, 2009. In the field, company's Chief Executive Officers (CEOs) were requested to identify appropriate study respondents amongst the following: company's directors of finance, Chief Financial Officers (CFOs) or, in the absence of CFO, any senior officer in-charge of finance function in their respective companies. Since the units of inquiry were the companies

from the private sector, it was important to deal with respondents who were part of the management team and had good knowledge in portfolio management and capital markets aspects. Once a company was willing to participate in the research, and a person in-charge of finance in the company was available, the questionnaire was delivered by hand to the respondent.

Both qualitative data, focusing on dependent and independent variables, and quantitative data focusing on control variables were collected to enable the researcher answer the broad investigative research question and to operationalize the association that existed between capital markets participation and going public environment. Dependent and independent variables are unobserved and as such they were indirectly determined using some measurable indicators. These measurable indicators were in form of selected factors in which respondents were asked to choose. Since the study employed an analytical survey design which is non-experimental, it was essential to account for the effect of control variables on capital markets participation.

Consideration of extraneous data in this survey study was important for a number of reasons. Companies which participated in the survey study were either 100% owned by local entrepreneurs or jointly owned between local and foreign entrepreneurs. Companies with joint ownership structures were expected to have strong international dimension in decision making. This makes the two groups to have different business characteristics emanating from their different business traditions, culture and experience which may have influenced their perceptions, preferences and motives when answering the questions. This may prejudice the results and therefore give a biased representation of the real situation.

Moreover, collecting control variable's data on company's industry categories such as industry risk sector; company's age, size, and development stage; and company's ownership and control structure had its own stress and limitations to the companies in the sample study. For example, a company in the start-up phase is more concerned with looking for a stable customer base than is a firm experiencing rapid growth, which has an

urgent need to acquire tools and practices for planning, management and control. These factors, and other various situations, may impact differently on the company's financial needs, on one hand, and optimal financing choices and preferences, on the other. The same applies to exporting or innovative firms, whose financing needs and preferences may be different from those of commercial firms selling low-value added products only to local markets. The variations in these different categories of companies are reasons why the study opted for stratified random sampling approach in order to ensure that, findings were more representative and gave a more realistic situation for all profit making private limited companies in Tanzania.

Furthermore, consideration of extraneous data was important because there are other variables apart from explanatory variables that may influence private sector companies' decisions to go-public. Since extraneous variables were expected to moderate the study, they were therefore incorporated in the multiple linear regression analysis (MLRA) model as error terms**.**

During the introduction to a company's Chief Executive Officer, the researcher or research assistant stressed on anonymity and confidentiality of information provided. Respondents were given enough time (between five to ten days) to enable them complete filling the questionnaires before they were collected by the researcher or research assistants. Upon collection, the completed questionnaires were checked for any inconsistences or errors, and detected errors were immediately corrected with the help of the respondent.

4.4 Operational Design

The main focus of the study was to determine and test if there are significant associations between going public environment and a private sector company's decision to participate in emerging capital markets of LDCs. The main research concept variables used in the study were going public decision as a dependent or criterion variable ***(Y)*** and going public environment as an independent or predictor/explanatory variable ***(X)***. Since the two concept variables cannot be asked directly from the respondents, they were translated

into observable and measurable indicator variables, based on the already existing theoretical and empirical literature as reviewed in previous chapters.

Given that the study aimed at determining factors motivating or inhibiting a private sector Company's participation in Tanzanian capital markets, the appropriate research questions asked in the questionnaires were those that addressed the factors inhibiting and/or motivating private sector companies to participate in Tanzanian capital markets. More specifically, questions contained in the questionnaire focused on how private sector companies' finance directors or senior managers associate: going-public rules and regulations; going-public costs***;*** and, going-public company's ordinance compliance requirements with company's decision to participate in Tanzanian capital markets, respectively.

To pave way for smooth analysis, the collected raw data were edited, coded, classified and tabulated so that they were amenable to analysis. Original data were transformed into measurable attributes to suit the data analytic strategy. The data levels and measurement scales used to operationalize the variables are *'Ordinal and Nominal scale'.* Ordinal scale is used to measure respondents' answers to questions asked in the questionnaire using a 5-point Likert scale. Nominal scale is used to measure the companies' characteristics which comprise of: company's industry sector; company's ownership structure; company's size; company's age; and, company's development stage. Ordinal scale variables were considered to be useful in computing the commonly used statistical measures such as standard deviation, Pearson correlation coefficient and other advanced regression statistical tests such as t-tests. More specifically, an ordinal scale was a suitable measurement for companies' respondent's attitudes while; the nominal scale was considered to be a suitable measurement in categorizing companies' characteristics.

In finding out the relationship and associations, study concept variables (*X's and Y's)* and c*ontrol variables* were considered simultaneously using a multiple linear regression analysis model (MLRA). In this respect: *Going public decision = f{Rules and regulations, Costs, Companies ordinance compliance requirements}.* Hence, by using

MLRA, the study determined the relationship between a company's going public environment and capital markets participation with subsequent considerations of *Control-Variables*. MLRA was used because it is a technique that allows additional factors to enter the analysis separately so that the effect of each can be estimated (Altman, 1991). According to Chammanur et al. (2006), the main reason why we present results based on the regression model is to provide comparability of our results with those of other researchers who also estimate the probability of going public using a regression model.

Given that: Y_i = Going public decision, is considered as a dependent variable; X_{1i} = going public rules and regulations; X_{2i} = going public costs; and, X_{3i} = *g*oing public companies ordinance compliance requirements; and, ε_i = error terms (which reflects other factors that can influence going public decision) – lead to the generic form of MLRA model used in this study expressed as follows:

$$Y_i = \alpha + \beta_1 X_{1i} + \beta_2 X_{2i} + \beta_3 X_{3i} + \varepsilon_i$$

$\beta_{i's}$ are regression coefficients and α is a constant term. However, β and α are unobserved parameters. The Statistical Package for Social Sciences (SPSS) software was used to analyse data in this study and the significance of regression coefficients $\beta_{i's}$, ascertained private sector willingness to go public and thus participate in the capital market.

Ordinary Least Square (OLS) method was used to calculate coefficients of regression analysis (β_i) and values of coefficients which fit the sample data best in the specific sense of minimizing the sum of squared residuals. Since none of our variables involved a binary-choice (categorical in nature) and Likert scale was used to rank responses. Hence, no independent variable was converted into dummy variable. The statistic coefficient factors enabled the researcher to determine the extent of the relationship that existed between the concept variables. According to Wiketye (1984), linear forms perform better than log forms in the absence of serial correlation. In using MLRA, it is normally assumed that relationships are linear, error terms are normally distributed and have zero means, and that observations are independent.

4.4.1 Dependent Variable

The dependent variable ***(Y_i)*** was determined using the level of company's interest in going public. The company's interest in going public was the measurable dimension in which the companies' respondents were asked in a 5-point Likert scale to express their level of interest. Particularly, respondents were asked to rank the extent to which their companies evaluate the association of going public environment with participation in Tanzanian capital markets. The cut-off score for the 5-point Likert scale is 3, which is the median or the 50^{th} percentile, while a score of 4 is 75^{th} percentile (High) and 2 is the 25^{th} percentile (low).

4.4.2 Independent Variables

Components of going public environment as independent variables were considered along three observable indicators namely: going public rules and regulations; going public costs; and going public company's ordinance compliance requirements. The three observable indicators were further translated into measurable attributes which the companies' respondents were asked to rank the extent to which each was *'important'* or was an *'obstacle'* to the company's decision to go public (participate in the Tanzanian capital markets). More specifically, using the 5-point Likert scale, the three going-public explanatory variables were measured along the going public environment measurable attributes as explained below.

4.4.2.1 Going-Public Rules and Regulations Indicator Variable

Going public rules and regulations were measured along the following seven attributes: Listing rules; prospectus information disclosure; portfolio diversification; reputation and credibility; external monitoring and corporate governance; confidentiality; and, control.

Listing rules: listing rules as an attribute was measured based on the requirement that a company wishing to go public must fulfil the following conditions: company's track record which requires a company to have at least three years of existence; profitability track record which requires a company to have being making profit and paying dividends to its owners/investors for a period of at least two of its last three financial years before

going public; issued and paid-up capital of at least Tshs500 million for main investment market segment (MIMS) or Tshs200 million for enterprise growth market segment (EGMS); a company's net tangible assets of at least Tshs500 million; directors and management relevant experience prior to going public/listing (5 years for MIMS and 1 year for EGMS); and composition of board of directors (at least one third of the board members must be non-executive directors). Given these requirements companies would find it an obstacle- hence, the measurement was the extent to which companies find this as an obstacle: *1 = no obstacle* to *5 = major obstacle.*

Prospectus information disclosure: prospectus information disclosure measures a company's decision to go public based on the requirement that the company is supposed to disclose its financial and price sensitive information, to disclose its business plans and to disclose other investments owned by the company. Given this requirement, companies may find going public an obstacle- hence, the measurement was to determine the extent to which companies find this an obstacle: *1 = not an obstacle* to *5 = major obstacle*.

Portfolio diversification: portfolio diversification measures a company's decision of going public based on the liquidity and easy transferability of equity and bonds, risk sharing, expanding shareholders' base and allowing venture capitalists to cash out. Given this requirement, companies may find going public important- hence, the measurement was to determine the extent to which this was important to the company: *1 = not important* to *5 = very important*.

Reputation and credibility: reputation and credibility is measured based on the benefits that the going public company will be able to acquire in terms of: enhanced reputation of the company; strengthened company's growth opportunities; enhanced company's product/services customer reliability; and, future management succession passage. Given these benefits that the company may get by going public- the measurement used therefore was to determine the extent of its importance: *1 = not important* to *5 = very important.*

External monitoring and corporate governance: external monitoring and corporate governance measures a company's decision of going public based on the importance of the requirements to: establish an independent Audit and compensation committees; enhancement of directors and management team's performance for company's growth; provide the required public company's size of board of directors and corporate accountability. Given these external monitoring and corporate governance requirements, the measurement used was to determine the extent of their importance in going public decision: *1 = not important* to *5 = very important*.

Confidentiality: confidentiality measures the extent of importance to a company's decision to go public based on the requirement to reveal: information whose secrecy may be crucial to the company; company's profitability; company's proprietary information; company's strengths and weaknesses and tax incentives. Specifically, the measurement was based on the extent of its importance: *1 = not important* to *5 = very important*.

Control: control measures the extent of its importance to the company's decision to go public based on its desire to retain decision making control by management team or owner managers of the private company. Specifically, the measurement was based on the extent of importance: *1 = not important* to *5 = very important.*

4.4.2.2 Going-Public Costs Indicator Variable

Going-public costs were measured along the following attributes: Costs and fees charged to take the company public***;*** and, costs and fees charged to keep the company public**.** The criterion used by respondents was to indicate the level of obstacle *(1 = no obstacle to 5 = major obstacle)* based on: First, costs attributed to take the company public which focused on application, admission and processing of IPOs fees; prospectus evaluation costs; brokerage, dealers and investment adviser's fees. Second, costs attributed for keeping the company public which focused on non-refundable annual costs and fees payable after becoming a public company.

4.4.2.3 Going-Public Company's Ordinance Compliance Requirements Variable

Going-public company's ordinance compliance requirements were measured according to the legal framework required by the Companies Act, cap.212. The criterion used was to determine the level of obstacle *(1 = no obstacle to 5 = major obstacle)* to company's going public decision based on: the incorporation of the private company as a public company in Tanzania; company's definition of the obligations and powers of directors; appointment of qualified auditors and accountants registered with NBAA; compliance with licensing laws; governance requirements; rights of shareholders; powers of making decisions by shareholders; and, good governance compliance requirements.

4.4.2.4 Control Variables

The study collected extraneous data which formed the private sector companies' control variables and were unrelated to dependent and independent variables. According to Favara (2003), the choice of control variables is crucial since a central concern of the cross-sectional data is that the results may be sensitive to the set of variables held constant in the regressions.

The control variables comprised of two categories. The first category comprised of the private company's characteristics and profile variables which were measured using the following attributes: company's industry sector risk category; age; size; development stage (seed, start-up, slow growth, fast growth, maturity and winding-down stages); and, company's ownership structure and control. The second category comprised of the socio-economic environment variable which was determined using the level of influence *(1 = no influence to 5 = great influence)* to the company's going public decision based on: knowledge on going public process and benefits; and, consequences of inherited philosophy of ujamaa in Tanzania.

The independent and control variables and their respective measurement scales required to operationalize the Going public decisions are summarized in Table 4.2 below.

Table 4.1 Summary of independent and control variables and operationalization

Observable Variable	Measurable Indicators	Response Attributes (Using 5 – Point Likert Scale)	Measurement Scale	Variable Label
Going public rules & regulations *(RuRe)*	Listing rules	1 = No Obstacle; 5 = Major Obstacle	Ordinal	*LitRul*
	Prospectus Information Disclosure	1 = No Obstacle; 5 = Major Obstacle	Ordinal	*ProInDis*
	Portfolio diversification	1 = Not Important; 5 = Very Important	Ordinal	*PorDiv*
	Reputation and credibility	1 = Not Important; 5 = Very Important	Ordinal	*RepCre*
	External monitoring & corporate govern	1 = Not Important; 5 = Very Important	Ordinal	*ExtCGo*
	Confidentiality	1 = Not Important; 5 = Very Important	Ordinal	*Cfd*
	Control	1 = Not Important; 5 = Very Important	Ordinal	*Ctr*
Going public costs *(Csts)*	Costs and fees	1 = Major Obstacle; 5 = No Obstacle	Ordinal	*CosFe*
Companies ordinance compliance requirements $(OrdCoRe)_i$	Keeping the company public	1 = No Obstacle; 5 = Major Obstacle	Ordinal	*KeCoPu*
	Company's ordinance (cap.212)	1 = No Obstacle; 5 = Major Obstacle	Ordinal	*Cap.212*
Private Company's characteristics	Industry Sector	Industry category	Nominal	*IndSet*
	Ownership structure	Family and Non-Family owned	Nominal	*OwnStr*
	Size	Number of employees	Nominal	*Size*
	Age	Year established	Nominal	*Age*
	Development Stage	Life-cycle stage	Nominal	*DevStg*
Socio-economic environment	Knowledge on going public financing	1 = No influence; 5 = Great influence	Ordinal	*KnoGoP*
	Consequences of inherited philosophy of Ujamaa.	1 = No influence 5 = Great influence	Ordinal	*ConPhUj*

Source: Literature Review

4.5 Data Processing

This section is in essence giving insight to the problem at hand. The focus of the study was to determine the real situation on how going public environment in Tanzania is associated with private sector company's going public decision. Data collected from the survey were both quantitative and qualitative and were, processed, analysed and presented. The essence was to put data in contextual form to enable study findings answer the research questions as well as test the research hypotheses raised in previous sections, which cover conceptual framework, in order to reach a valid conclusion.

Data processing started one month after commencement of the fieldwork and continued concurrently with the field enumeration exercise. Questionnaires were first pre-edited in the field to make sure that they were complete and accurate. In case of missing information, the questionnaires were returned to respondents for correction and/or completion. Final questionnaires received were re-edited and entered into data capture system for validation checks of variables, dimensions and attributes. After completion of validation checks, the data capture system was linked to SSPS software for data analysis which captured the qualitative and quantitative aspects of the research variables. Last but

not least, the analysed data were processed using analytical statistical techniques to test research hypotheses that were raised in the conceptual framework.

To determine the quality and validity of data received from respondents, analysis of company's profile and socio-economic environment affecting the company's decision making from each of the returned questionnaires was performed. Attributes used to determine the company's categories in the study included: Company's age; size; ownership structure and control; and, development stage which are in line with the recommendation given by Beck, Demirgue-Kunt, Levine and Maksimovic (2004) that, regression analysis indicates that the size, age, and ownership structure are the most robust predictors of financing obstacles. Attributes for socio-economic environment dimension covered industry risk sector category; knowledge on going public benefits; and, consequences of the inherited philosophy of Ujamaa in Tanzania.

4.6 Statistical and Methodological Quality Control

Results of scientific inquiry are accepted as scientific facts if data collected and methods employed in collecting the data are ***reliable*** and ***valid*** (Ndunguru, 2007). In this study, it was important to establish reliability and validity in order, as a scientific study, to ensure that it contributed to new knowledge gap in the field.

Methods and techniques used to acquire data in a survey study should provide sufficient assurance that statements based on statistical analysis of the data are valid and reliable. In this study, therefore, data quality was enhanced using three key dimensions of quality control which include: Reliability; validity; and, lack of bias.

4.6.1 Reliability

Reliability refers to the extent to which a measure is giving consistent and stable results in a measurement process even when employed by different researchers. Reliability is related to random measurement errors (Mikko, 2002). To avoid problems associated with reliability, the questionnaire was tested to five randomly selected companies from Ilala district which was one of the study sample areas in Dar es Salaam region.

Areas where the researcher considered that data required were critical to the attainment of valid results, duplicate questions were constructed and administered in the pre-test exercise using different wording approach in order to verify respondents' answers reliability. Specifically, the use of multiple questions in the pre-test questionnaires aimed at determining if any question had more than one meaning in order to eradicate any ambiguous and complicated questions. The pre-test exercise was conducted by asking the respondents to fill the questionnaire and then they were asked on the user friendliness and comprehensibility of the questionnaire. This approach is in line with recommendations from Dooley (1995) study who argued that the main method of improving and assessing reliability of data in a survey study is to use multiple items to measure a construct within a single test. Similarly, the pre-test approach adopted in this study was in line with Bourque and Fielder (2003) arguments that, a pre-test exercise is conducted where respondents are asked to fill the questionnaire and then they are asked on the user friendliness and comprehensibility of the questionnaire.

Multicollinearity was used to detect any situation when high correlation was present between two or more predictor variables in order to avoid any collinearity disturbance in data which may limit the statistical inferences made about the reliability of the data. High correlations, if present, would have created problems when trying to draw inference about the relative contribution of each predictor variable to the success of the MLRA model. To detect the degree of multicollinearity, the researcher observed changes in regression model by simply adding or dropping some variables and observe the value of variance inflation factor (VIF). VIF indicates the degree an explanatory variable can be expressed as a linear combination of other explanatory variables. According to Mikko (ibid), VIF value greater than 10 indicates problematically high multicollinearity.

Given that the study was a cross-section sample of companies from different industry sectors with differences in companies' age and size, the study used SPSS software to detect if there were heteroskedasticity problems in order to justify reliance on OLS. According to Pinkse (2006), heteroskedasticity problems are common in cross-section data where it is possible to have wide disparity between large and small observed values

of variables and need to be corrected; if not, they may affect the accuracy of OLS estimates. Considering that heteroskedasticity problems cause OLS to underestimate variance and standard errors of the estimated coefficients and, therefore the reliability of the data, the study used t-tests and standard errors from SPSS software to detect and correct any heteroskedasticity problems. The approach improved the estimation of model's standard errors without having to transform the regression model. Finally, where the regression analysis found that the null hypothesis can be rejected (i.e. that the coefficient of interest does not in-fact equal zero), then that explanatory variable was considered to have an effect on the dependent variable. As a result, such a positive or negative result indicated possible existence of a potential association between the going public environment and the private sector company's going public decision, hence participation in the Tanzanian capital markets.

4.6.2 Validity

Validity measurement was considered to be the best approach to approximate the truth of the reviewed theoretical propositions, inferences of the results and findings and finally in providing the study conclusion. This is line with other survey studies conducted by other researchers (Carmines and Zeller, 1979; Rossi, Wright and Anderson, 1983) which considered validity measurement as the extent to which a set of operations measures what it is supposed to measure.

In order to ensure that the research measurement process was consistent with the theoretical predictions reviewed in the previous chapters, an adequate predictive validity measurement was necessary to produce accurate data. This is in line with Ndunguru (2007) who argues that, validity of research results is ensured if adequate physical and/or statistical control is put in place such that the research measurement process produces accurate data.

The use of predictive validity was necessary in this study in assessing the operationalization's ability to predict what should be theoretically predicted. Specifically, the study validity was determined by ensuring that all the questions asked in the

questionnaires fully addressed the research objectives and hypotheses. The use of stratified random sampling and the pre-testing of the questionnaires to respondents, to whom the questionnaires were targeted, aimed at enhancing validity and reaching a valid conclusion in the study. As a result, validity was ensured by the researcher through measuring what the study set out to measure in order to reach a credible and believable conclusion which is true and free of bias (systematic error).

4.6.3 Lack of Bias

Data are considered to be unbiased if the degree that estimates from the data do not deviate from the population value of a phenomenon in a systematic fashion. Taking this into consideration, non-response rate and missing values were therefore considered in order to avoid biasness from the estimates. However, whenever data are collected with the questionnaires or interviews, missing data are always expected to occur. Reasons for non-response cases in this study which occurred during the data collection period were critically investigated in order to reveal the reasons. It was revealed that, respondents did not respond to certain questions due to lack of knowledge on the subject matter, failure to make direct contact with the sample unit due to unavailability of the respondents, refusal of the sample unit to participate in the study, late respondents, and/or the question sensitivity and concern for privacy.

According to Little and Rubin (1987); Soong, Draves and White (2005), if the number of cases of non-response and/or missing values is less than 5% of the sample, then the researcher can drop the missing data since their absence is unlikely to affect the survey estimates by large amounts. The calculated cases of non-response in this study (across different companies' categories from the sample size) were less than 3% (computed from the sample size) which was considered to be not significant and therefore dropped from further analysis. Also the SPSS software has a technique called *'missing value analysis'* which enabled the researcher to fill in the missing blanks in order to create better models for accurate data analysis. Where respondents were not very willing to part with sensitive information, a technique used to stimulate their trust and confidence was through combining a direct interview with a self-administered questionnaire in order to directly

communicate confidentiality to respondents. This was achieved by giving reassurance and explaining briefly how information will be handled and the reasons for asking the question. However, care was taken not to overdo this or give lengthy reassurance because we felt that it could result into negative effect to respondents.

4.6.4 Confirmatory Factor Analysis

To test how well the study reliability and validity of theoretical structure, latent constructs that were measured by the multiple indicators and correlation among a group of variables in the questionnaires, confirmatory factor analysis (CFA) as a multivariate statistical procedure was used. To use CFA approach, each variable was expressed as a linear combination of the underlying factors and the factor loadings (coefficients in the linear combinations) were determined. SPSS was very useful in the data analysis because it involves some sophisticated inferential and multivariate statistical procedures to take care of factor loading. Factor loading was used in the study to determine how much each factor was responsible for the variation in each variable and expressed in terms of its Eigen value. Using SPSS Factor analysis as provided by SPSS founders – Norman, Hull, and Bent (www.spss.com/corpinfo/history.htm), the study was able to determine that: the sample size was adequate; there was no perfect multicollinearity between the variables; and, since factor analysis is a linear function of measured variables, it did not require homoscedasticity between the variables. The study also adopted the rule that, factors with an eigenvalue of less than 1.0 should not be used because it accounts for less than the variation explained by a single variable.

Descriptive measures of skewness were conducted to deal with the quantitative data base on every data received from sample units. The aim was to determine the shape and size of the curve through which the study could draw an inference about data distribution. Descriptive measures of skewness considered were based on mean, median, mode, standard error of skewness, minimum and maximum.

4.7 Operational Hypotheses

The study objective was to determine the extent to which the *'Going public environment'* (as measured using: going public rules and regulations; going public costs; and, going public company's ordinance compliance requirements) is associated with *'Private sector Company's decision to participate in Tanzanian capital markets* (as measured by the level of company's interest in going public).

Degrees of freedom were determined in order to ensure quality in statistical analysis of data, and, particularly, on how a dependent variable was related to each of the independent variables. The aim was to determine how the concept variables *(dependent, explanatory and control variables)* were linked. In determining the association; the dependent and explanatory (as independent) variables, together with control variables, were considered simultaneously using MLRA model to ascertain the relationship that exists between the explanatory variables and criterion variables. This approach is in line with Stockwell (2008) who argued that, a multiple regression analysis model is capable of dealing with an arbitrarily large number of explanatory variables.

The generic form of the MLRA model, $Y_i = \alpha + \beta_1 X_{1i} + \beta_2 X_{2i} + \beta_3 X_{3i} + \varepsilon_i$ is here represented as: $Y_i = \alpha + \beta_1[GpRuRe]_i + \beta_2[GpCsts] + \beta_3[GpCocRe] + \varepsilon_i$. To determine the association between going public environment as an explanatory variable and private sector participation in Tanzanian capital market as a dependent variable, the regression coefficients β_1; β_2; *and,* β_3 were used to test the extent of association which existed in the research hypotheses $H_{a1;}$ $H_{a2;}$ and, $H_{a3,}$ respectively.

The testable hypotheses were therefore presented as follows:

(i) The first null hypothesis, focused on the idea that *going public rules and regulations are not associated with a company's decision to go public* while its alternative hypothesis is *going public rules and regulations are negatively associated with the company's decision to go public*. Operationally stated, hypothesis is formalized as: $H_{o1}: \beta_1 = 0$ and $H_{a1}: \beta_1 < 0$.

(ii) The second null hypothesis explored the idea that *going public costs are not associated with a company's decision to go public* while its alternative hypothesis was *going public costs are negatively associated with the company's decision to go public.* In formal terms these hypotheses are statistically/operationally stated as: H_{o2}: $\beta_2 = 0$ and H_{a2}: $\beta_2 < 0$.

(iii) The third null hypothesis was testing the idea that *going public companies' ordinance compliance requirements are not associated with a company's decision to go public* while its alternative hypothesis was: *going public companies' ordinance compliance requirements are negatively associated with the company's decision to go public*. Statistically stated, these hypotheses are expressed as: H_{o3}: $\beta_3 = 0$ and H_{a3}: $\beta_3 < 0$.

For the t-test, the critical values at 10% and 5% levels are 1.282 and 1.645 respectively. The un-standardized coefficients were used to measure the impact of the predictor variables on the criterion variable. A positive coefficient means that predictor variable has a positive impact on the criterion variable and a negative one indicates a negative impact. Furthermore, multiple-correlation coefficient (R) was used to measure correlation between observed and predicted values of dependent variables. Values of R range from -1 to +1 and the sign indicates the direction of the relationship (positive or negative). Absolute values of R indicate strength, with larger absolute values indicating stronger relationship. Besides, R-Squared (R^2) was used to measure proportion of variance in the dependent variable which was accounted for by MLRA model. Values of R^2 ranged from 0 to 1.

The sample R^2 tends to optimistically estimate how well the model fits the population. Small values of R^2 indicate that, the regression model does not fit the data well because we might have omitted some important variables. However, a very high R^2 could also indicate some problems such as: miss-specification of the regression model. According to Anil and Kapoor (2008) study, R^2 value revealed that the model used explained only 27%

of the dividend payment decision of Indian IT sector. However, a low R^2 is not uncommon in social science studies, especially in cross-sectional analysis. According to Adelegan (2007), on the basis of low adjusted R^2 value, one may be tempted to conclude that the used regression model is not suitable in terms of the explanatory power. To Adelegan (ibid), this temptation should be resisted since it is not unusual for R^2 values which results from regression equations dealing with different variables to be generally low. Walker (2004) also argues that, econometric regressions should not be heavily judged due to a low R^2 value. For example, if $R^2 = 0.12$, that means 12% of the variation is explained, which is better than 0% before regression.

Adjusted R-Squared value was therefore calculated to take into account the variance in the number of variables in the regression model and the number of observations from the survey respondents as accounted for in the survey respondent variable. Table 4.3 is a summary of the conceptual hypotheses tested in this study.

Table 4.2: Summary of testable research hypotheses of the study

S/N	HYPOTHESIS DESCRIPTION	TESTABLE HYPOTHESES	
1.	Going public rules and regulations are not associated with company's decision to go public.	Null Hypothesis	$H_{01:}\ \beta_{1,} = 0$
	Going public rules and regulations are negatively associated with company's decision to go public.	Alternative Hypothesis	$H_{a1:}\ \beta_1 < 0$
2.	Going public costs are not associated with company's decision to go public.	Null Hypothesis	$H_{02:}\ \beta_{2,} = 0$
	Going public costs are negatively associated with company's decision to go public.	Alternative Hypothesis	$H_{a2:}\ \beta_2 < 0$
3.	Going public Company Ordinance compliance requirements are not associated with company's decision to go public.	Null Hypothesis	$H_{03:}\ \beta_{3,} = 0$
	Going public Company Ordinance compliance requirements are negatively associated with company's decision to go public.	Alternative Hypothesis	$H_{a3:}\ \beta_3 < 0$

Source: Literature Review

4.8 Summary

This chapter has outlined the research methodology adopted in the study, which focused on going public decisions theory testing. The target population considered for the study consisted of profit making private sector companies registered in Tanzania mainland. The study population was divided into homogeneous sub-groups (strata) to which the sample size was drawn from each stratum of the population using the stratified random sampling method. The study relied on primary data which were collected using structured questionnaires.

Both qualitative and quantitative data were collected to enable the research to answer the broad investigative research question: *'what factors influence participation of private sector companies in emerging capital markets?'* Questionnaires received from respondents were entered into data capture system for validation checks and linked to SPSS software for data analysis. The analyzed data were processed using analytical statistical techniques to test the hypotheses that were raised in the conceptual model. To ensure that study findings contributed to new knowledge in the field, statistical measures of reliability and validity were used to determine the extent to which the quality of data collected and the measurement process used were able to achieve the main research objective. Since the study needed to perform descriptive comparative analysis, the SPSS package was suitable because it contains, in its software, an option called *'split file'* which was able to split the data into different companies' categories and characteristics for quantitative data analysis. The next chapter presents results of the analyzed field survey data. The focus is on testing pertinent research hypotheses developed and summarized above.

CHAPTER FIVE

PRESENTATION OF FINDINGS AND DISCUSSION

5.1 Introductory Comment

The objective of the present study was to ascertain the extent to which propositions in the on-going public debate and the going public decision theories reviewed in previous chapters hold true in emerging capital market economies like Tanzania. The approach employed was to test pertinent research hypotheses raised in previous chapters. The previous chapters have explored those propositions, theories and empirical aspects regarding going public debate and decisions. The emphasis was in emerging capital market economies like Tanzania. The overall objective of the study was to ascertain the extent to which going public rules and regulations; costs and fees; and, company's ordinance compliance requirements are associated with private sector company's decision to go public in emerging market economies and Tanzania, in particular.

This chapter is divided into five sections. Section two is about descriptive statistics on response patterns, companies' characteristics, socio-economic environment and going public decision environment of the sample companies. The descriptive statistics gives results on general characteristics and profiles of private sector companies covered in the sample. Section three presents the analytical results using correlation analysis, cross-tabulation analysis and regression analysis. Testing of research hypotheses is reported in section four. Finally, section five provides a concluding remark.

5.2 Descriptive Statistics

The results presented in this chapter are based on 104 (97.2%) out of 107 questionnaires distributed in Dar es Salaam region. Questionnaires collected from Arusha region were 35 (81.2%) out of 43; while from Kilimanjaro region they were 42 (82.4%) out of 51. The total number of questionnaires distributed to each region was 181. However, after checking the information provided by respondents in the questionnaires from all the three regions; 168 (93%) out of 181 were accepted as statistically credible for further analysis.

This number represents 79 percent of the initial accepted sample size of 212, and it is considered statistically sufficient for testing the hypotheses raised in the study. The response pattern is summarized in Table 5.1 below.

Table 5.1 Response pattern of the study

Region	Initial Data			Ques. Sent to Coys		Ques. Returned		Ques. Not Returned		Ques. Accepted	
	Total *(a)*	Sample *(b)*	%	*f (c)*	% *of (b)*	*f (d)*	% *of (b)*	*f (e)*	% *of (b)*	*f (f)*	% *of (b)*
DSM:	2,240	112	5	107	95.5	104	92.9	3	3.0	100	89.3
Arusha	920	46	5	43	93.5	35	76.1	8	17.4	32	69.6
Kilimanjaro	1,080	54	5	51	94.4	42	77.8	9	16.7	36	66.7
TOTAL	4,240	212	5	201	94.8	181	85.4	20	9.4	168	79.2

Source: Survey Data

Descriptive statistical analysis focused on frequency distributions of major and pertinent variables implied in the conceptual framework of the study as summarized in Figure 3.3 on page 86. The generic variables included are: company's characteristics; socio-economic environment; going public environment; and going public decisions.

5.2.1 Company's Characteristics and Socio-economic Environment

Company characteristics are those which were used in earlier studies and, therefore, make it possible to compare findings of the study with earlier study findings. This approach compares well with other similar studies such as Bancel and Mittoo (2007) which considered motivations for going public to be influenced by firm characteristics, such as ownership structure and control, size and age as well as by home country's institutional and regulatory environment which should be analyzed in both theoretical models and empirical research on going public decisions. Company characteristics and socio-economic environment were analysed and findings are presented as follows.

5.2.1.1 Industrial Sector Classification

In this study, there are no restrictions placed on the type of industry sector for the sample companies. Information from respondent companies is presented by industry sector categories using International Standards Industrial Classification (ISIC) revision 3 data base. Industry sector was determined from respondent's own description of main business

the company is engaged in. Industry classifications of respondent companies were measured by nominal scales divided into 13 named sectors as summarized in Table 5.2. Industrial classifications of respondent companies are ranked based on percentage of each of industry sector and information extracted from the returned questionnaires.

Table 5.2 Respondents statistics according to industrial sector

Industry Sector	Frequency	Percent	Valid Percent	Cumulative Percent
Wholesale and retail trade	55	32.7	32.7	32.7
Transportation, storage and communications	28	16.7	16.7	49.4
Manufacturing	24	14.3	14.3	63.7
Hotels and restaurants	16	9.5	9.5	73.2
Construction	14	8.3	8.3	81.5
Real estate, renting and business activities	12	7.1	7.1	88.7
Agriculture, hunting and forest	5	3.0	3.0	91.7
Education	4	2.4	2.4	94.0
Mining and quarrying	3	1.8	1.8	95.8
Financial intermediation	2	1.2	1.2	97.0
Electricity ,gas and water supply	2	1.2	1.2	98.2
Health and social work	2	1.2	1.2	99.4
Community, Social and personal service activities	1	0.6	0.6	100.0
Total	168	100.0	100.0	-

Source: Survey Data

Wholesale and retail trade (32.7%); transportation, storage and communications (16.7%); and, manufacturing (14.3%) accounted for a larger proportion of companies from sample respondents. The results compare well with those of CMSA market structure study (2006) which indicated a bigger proportion of companies coming from wholesale (11.3%), transport (15.1%) and manufacturing (22.6%). The other sectors that contributed substantially to the number of respondents are construction (8.3%) and hotels and restaurants (9.5%). Apart from wholesale, transport and manufacturing industry sectors which in total accounted for about 64% of the sample size, the other remaining 10 respondents are normally distributed around 1-10% of industry sector categories. This normal distribution among respondents guarantees that the study is able to represent not only the overall population, but also key subgroups of the population, especially for small industry sectors.

5.2.1.2 Company's Ownership and Control Structures

Respondent companies were measured by nominal scales and classified into two separate categories based on each company's ownership structure and control. The first category are companies comprised of 'private profit making- family owned companies' while the other category is comprised of 'private profit making non-family companies' as reported in Table 5.3. Ownership and control structures of respondents were made-up of private profit making with family ownership and those with non-family ownership.

Table 5.3 Respondents statistics according to ownership and control structures

Ownership Structure	Frequency	Percent	Valid Percent	Cumulative Percent
Private profit making-non family	93	55.4	55.4	55.4
Private profit making-family	75	44.6	44.6	100.0
Total	168	100.0	100.0	-

Source: Survey Data

Out of 168 respondents, 55.4% comprised of private profit making-non family owned companies, while 44.6% were private profit making-family owned companies. The results are consistent with Bancel and Mittoo (2007) study where ownership and control structure varied widely across firms – about 52% of firms being non-family controlled and 35% family controlled. This meant that, sample size was fairly distributed across family and non-family companies with a sample mean of 1.89, as shown in Table 5.10.

5.2.1.3 Company's Age

As reviewed in previous chapters, consideration of company's age variables is important in a study investigating a company's going public decision (LaPorta et al. 1997; Pagano et al. 1998). By measuring a company's age, the research provided a more complete picture of Tanzanian private sector businesses (both new and older privately-held companies). Age is classified across the sample size based on the number of years since the company was established. Thus, companies falling within the range of 3-10 years since establishment were considered to be new. Companies established more than 10 years back were classified as older companies. Table 5.4 presents a summarized report of information extracted from respondent's questionnaires and results analysed based on each company's age since establishment.

Table 5.4 Respondent statistics according to company's age

Company's Age	Frequency	Percent	Valid Percent	Cumulative Percent
New Companies (1999 and later)	88	52.4	52.4	52.4
Older Companies (1998 and before)	80	47.6	47.6	100.0
Total	168	100.0	100.0	-

Source: Survey Data

The analysed data of descriptive statistics for company's age reveal that, respondent' companies are fairly distributed between new companies (47.6%) and old companies (52.4%). This also shows that, the sample size was fairly distributed across family (33.9% and 21.4%) and non-family (18.5% and 26.2%) for new and older companies, respectively.

5.2.1.4 Company's Size

Companies surveyed were of two different size categories (small and large sized) based on the number of employees. Small companies consisted of companies with employees ranging from 1 to 49 while large companies were those with 50 or more employees, as shown in Table 5.5 below.

Table 5.5 Respondent statistics according to company's size

Company's Size	Frequency	Percent	Valid Percent	Cumulative Percent
Small companies (1-49)	130	77.4	77.4	77.4
Large companies (50 or more)	38	22.6	22.6	100.0
Total	168	100.0	100.0	-

Source: Survey Data

Out of 168 respondents, 77.4% were small companies which accounted for a bigger proportion of the sample respondents. As far as private company's size was concerned, the analysed data indicated that there was a significant variation in proportion of respondents which stood at 23:77 between large and small companies, respectively. These results compare well with those of Trourunen and Laaksome (2009) for Finish companies which indicated that family businesses were smaller by size than non-family or widely held businesses. Despite the over-representation of small companies, the number of respondents from the sample were considered to be a good representation of

the real private sector companies in emerging market economies like Tanzania and therefore provided valid data for the study population.

5.2.1.5 Development Stage

Data collected were classified and measured using a nominal scale based on six company's life cycle development categories: seed stage; start-up stage; slow growth stage; fast growth stage; maturity stage; and, winding down stage. Table 5.6 presents a summary of report of data extracted from the questionnaires and analysis based on six company's development stages.

Table 5.6 Respondent statistics according to company's stage of development

Company's Stage of Development	Frequency	Percent	Valid Percent	Cumulative Percent
Seed stage	1	0.6	0.6	0.6
Start-up stage	11	6.5	6.5	7.1
Slow-growth stage	63	37.5	37.5	44.6
Fast-growth stage	85	50.6	50.6	95.2
Maturity stage	5	3.0	3.0	98.2
Winding down stage	3	1.8	1.8	100.0
Total	168	100.0	100.0	-

Source: Survey Data

Out of the 168 respondents, the majority are concentrated at the middle growth stage of development, which comprises of slow-growth stage (37.5%) and fast-growth stage (50.6%), with the mean 3.5417 and standard deviation 0.76491 as shown in Table 5.10. these results compare well with those of CMSA Market Structure study (2006) which depicted a fairly normal distribution of respondent companies, with the majority (88.1%) belonging to the growth stage of development.

5.2.1.6 Regional Location

The total number of respondents in the sample was 168 private companies as shown in Table 5.7 below. Respondents were drawn from three regions, namely Arusha, Kilimanjaro and Dar es Salaam.

Table 5.7 Respondents statistics based on region of study

Regions	Frequency	Percent	Valid Percent	Cumulative Percent
Dar es Salaam	100	59.5	59.5	59.5
Kilimanjaro	36	21.4	21.4	81.0
Arusha	32	19.0	19.0	100.0
Total	168	100.0	100.0	-

Source: Survey Data

Table 5.7 above shows that, respondents from Dar es Salaam accounted for a bigger proportion of 59.5% while those of Arusha and Kilimanjaro accounted for the remaining proportion of 19% and 21.4%, respectively in the whole sample.

5.2.1.7 Socio-economic Environment

Analysis based on socio-economic environment was based on two categories: knowledge about going public benefits and the consequences of the inherited philosophy of ujamaa in Tanzania as summarized in Table 5.8 and 5.9 below.

Table 5.8 Knowledgeable about going public process and benefits

Knowledge about going public	Frequency	Percent	Valid Percent	Cumulative Percent
Not much	90	53.6	53.6	53.6
Average	46	27.4	27.4	81.0
Very much	23	13.7	13.7	94.6
Don't know	9	5.4	5.4	100.0
Total	168	100.0	100.0	

Source: Survey Data

Table 5.8 above reveals that the majority (90%) of respondents were not much knowledgeable about going public process and benefits.

Table 5.9 Consequences of the inherited philosophy of ujamaa in Tanzania

Consequences of ujamaa	Frequency	Percent	Valid Percent	Cumulative Percent
No influence	82	48.8	48.8	48.8
Moderate	23	13.7	13.7	62.5
Great influence	18	10.7	10.7	73.2
No opinion	45	26.8	26.8	100.0
Total	168	100.0	100.0	

Source: Survey Data

Table 5.9 shows that, 49% of respondents did not see the inherited philosophy of ujamaa in Tanzania as a problem in going public decision. However, a fairly sizeable proportion of respondents (27%) had no opinion, which may indicate that the number of

entrepreneurs in Tanzania who have no opinion to the consequences of ujamaa is becoming bigger and bigger. This could be attributed by the fact that, the new business establishments in Tanzania, are owned by young entrepreneurs who may not be aware of the fundamental principles of ujamaa.

The study provides a detailed picture on the distribution of privately held businesses in Tanzania based on company's industrial classification, ownership structure, age, size and development stage. The summary of descriptive statistics shows that the sample size is in line with the existing descriptions of private sector companies as reviewed in the literature and conceptual methodology. Respondent companies constitute a large variety of company categories in terms of industry sector, ownership and control structures, size, age, and development stage. Since the study intended to assess the statistical significance of estimated relationships, that is, the degree of confidence that true relationship was close to the estimated relationship, the descriptive measures were appropriate statistical tools for the purpose.

Descriptive statistics for company characteristics and socio-economic environment were analyzed using: measures of central tendency (mean), measures of dispersion (standard deviation), and Pearson's measure of skewness, as summarized in Table 5.10 below.

Table 5.10 Summary of measures for company socio-economic characteristics

SN	Variables	Std. Deviation	Skewness		N
			Statistics	Std. Error	
1.	Industrial sector	4.24969	0.641	0.187	168
2.	Ownership and control structures	0.997	0.217	0.187	168
3.	Company's age	0.50093	-0.096	0.187	168
4.	Company's size	0.41961	1.321	0.187	168
5.	Stage of development	0.76491	0.021	0.187	168
6.	Region of study	0.63766	-0.020	0.187	168
7.	Knowledge about going public	0.76602	-0.950	0.187	168
8.	Consequences of ujamaa	1.28552	0.477	0.187	168

Source: Survey Data

The Pearson's measure of skewness was used in order to determine the shape and size of the curve through which the study could draw an inference about a given distribution of observed data, while standard deviation was used to measure average difference of

observed values from mean. Low standard deviation indicates that data points are very close to mean, whereas high standard deviation indicates that data are spread out over a large range of observed values from mean. Industrial sector is the category which carried a high standard deviation of 4.24969 and therefore it was dropped from further analysis in the correlation and regression analysis stage.

5.2.2 Descriptive Statistics for Company's Going Public Environment

Company's going public environment was measured using three predictor variables as summarized in the conceptual framework presented in Figure 3.3 on page 86. The three predictor variables comprised of: going public rules and regulations requirements; costs and fees requirements; and, company's ordinance compliance requirements. The aim was to determine the extent to which the three predictor variables were associated with a private company's decision to go public (in emerging market economies and, in particularly, Tanzania) as a criterion variable.

5.2.2.1 Going Public Rules and Regulations

Going public rules and regulations were measured using seven attributes consisting of: listing rules; prospectus information disclosure; portfolio diversification; reputation and credibility; external monitoring and corporate governance; confidentiality; and, control. A summary of the results and interpretations is presented in tables 5.11 to 5.17 below.

Table 5.11 below reveals that, 51.8% of the respondents considered listing rules requirements as a moderate obstacle while 35.1% considered it as not an obstacle at all. Only 11.9% consider it as a major obstacle.

Table 5.11 Listing rules requirements

Listing rules requirements	Frequency	Percent	Valid Percent	Cumulative Percent
Major obstacle	20	11.9	11.9	11.9
Moderate	87	51.8	51.8	63.7
Not an obstacle	59	35.1	35.1	98.8
No opinion	2	1.2	1.2	100.0
Total	168	100.0	100.0	

Source: Survey Data

The majority of respondents (79.2%) in Table 5.12 below considered prospectus information disclosure requirements as a major obstacle to going public decision. These results are consistent with Byam et al. (2002) who argued that, many firms in EAC are family-owned or closely-held and there is clear reluctance to dilute ownership through public offers and there is a stronger aversion to the disclosure and transparency requirements associated with a public listing.

Table 5.12 Prospectus information disclosure requirements

Information disclosure requirements	Frequency	Percent	Valid Percent	Cumulative Percent
Major obstacle	133	79.2	79.2	79.2
Moderate	21	12.5	12.5	91.7
Not an obstacle	9	5.4	5.4	97.0
No opinion	5	3.0	3.0	100.0
Total	168	100.0	100.0	

Source: Survey Data

Table 5.13 below shows that, 51.8% are indifferent to portfolio diversification in the decision to go public. This may indicate that, respondents consider portfolio diversification as an opportunity for their companies to expand shares from public investors or a way to reduce private firm holding's risk

Table 5.13 Portfolio diversification

Portfolio diversification	Frequency	Percent	Valid Percent	Cumulative Percent
Not important	40	23.8	23.8	23.8
Average	87	51.8	51.8	75.6
Very important	41	24.4	24.4	100.0
Total	168	100.0	100.0	

Source: Survey Data

Table 5.14 below reveals that, 49.4% consider company's reputation and credibility as a very important factor in their company's decision to go public. The result is consistent with Maksimovic and Picheler (2001) who argued that, going public gives first move advantage and serves to increase recognition and reputation of their companies.

Table 5.14 Company's reputation and credibility

Reputation and credibility	Frequency	Percent	Valid Percent	Cumulative Percent
Not important	21	12.5	12.5	12.5
Average	64	38.1	38.1	50.6
Very important	83	49.4	49.4	100.0
Total	168	100.0	100.0	

Source: Survey Data

On corporate governance dimension, Table 5.15 below shows that the majority of respondents considered external monitoring and corporate governance as an average important factor in going public decision.

Table 5.15 External monitoring and corporate governance

External monitoring	Frequency	Percent	Valid Percent	Cumulative Percent
Not important	42	25.0	25.0	25.0
Average	87	51.8	51.8	76.8
Very important	38	22.6	22.6	99.4
No opinion	1	.6	.6	100.0
Total	168	100.0	100.0	

Source: Survey Data

Regarding company's confidentiality, Table 5.16 below reveals that, the majority (80.4%) of respondents considered confidentiality as a very important factor in company's decision to go public. The results are consistent with Chammanur et al. (2006) who argued that, going public has the disadvantage of releasing confidential information to competing firms, which can then compete more effectively with the going public company. The results are also in line with Pagano et al. (1998) who argued that, going public exposes companies to close scrutiny from tax authorities, reducing their scope for tax avoidance and evasion relative to private companies

Table 5.16 Company's confidentiality

Confidentiality	Frequency	Percent	Valid Percent	Cumulative Percent
Not important	12	7.1	7.1	7.1
Average	21	12.5	12.5	19.6
Very important	135	80.4	80.4	100.0
Total	168	100.0	100.0	

Source: Survey Data

On company control dimension, Table 5.17 below reveals that, the majority of respondents (75%) consider company's control as a very important factor in going public

decision. This is in line with Helwege and Packer (2004) who argued that, some private companies consider going public but decide to remain private because maintaining control of their companies is the number one reason for staying private. This also agrees with the proposition raised in the reviewed theories of going public that: private companies whose controlling shares enjoy large private benefits of control are less likely to go public.

Table 5.17 Company's control

Control	Frequency	Percent	Valid Percent	Cumulative Percent
Not important	16	9.5	9.5	9.5
Average	26	15.5	15.5	25.0
Very important	126	75.0	75.0	100.0
Total	168	100.0	100.0	

Source: Survey Data

5.2.2.2 Costs and Fees Requirements

Going public costs and fees were measured using two attributes as summarized in the conceptual framework presented in Figure 3.3 on page 86. The two attributes consist of: costs and fees charged in taking the company public; and, costs and fees charged in keeping a company public. The aim was to determine the extent to which costs and fees are associated with the private company's decision to go public in emerging market economies and, particularly, in Tanzania as a criterion variable.

Table 5.18 Going public costs and fees requirements

Costs and fees	Frequency	Percent	Valid Percent	Cumulative Percent
Major obstacle	48	28.6	28.6	28.6
Moderate	81	48.2	48.2	76.8
Not an obstacle	31	18.5	18.5	95.2
No opinion	8	4.8	4.8	100.0
Total	168	100.0	100.0	

Source: Survey Data

Table 5.18 above shows that, costs and fees are moderately considered to be a factor for consideration in going public decisions at 48.2% level.

5.2.2.3 Company's Ordinance Requirements

Company's ordinance requirements were measured using five attributes as summarized in the conceptual framework presented in Figure 3.3 on page 86. The five attributes consist of: incorporation of the company as a public company; powers and obligations of directors; appointment of auditors and accountants; rights and powers of shareholders; and, governance compliance requirements.

Table 5.19 Going public Company Act 2002 (cap.212) requirements

Act 2002 (cap.212)	Frequency	Percent	Valid Percent	Cumulative Percent
Major obstacle	12	7.1	7.1	7.1
Moderate	91	54.2	54.2	61.3
Not an obstacle	57	33.9	33.9	95.2
No opinion	8	4.8	4.8	100.0
Total	168	100.0	100.0	

Source: Survey Data

Results in Table 5.19 above indicate that, out of 168 respondents, 54.2% consider company's ordinance compliance requirement as a moderate factor in a company's going public decision.

5.2.3 Descriptive Statistics for Going Public Decision

To measure the level of interest in going public decision, respondents were asked to indicate the level of importance for their company's decision to go public. Results are summarized in Table 5.20 below.

Table 5.20 Company's decision to going public

Going public decisions	Frequency	Percent	Valid Percent	Cumulative Percent
Not important	42	25.0	25.0	25.0
Moderate	87	51.8	51.8	76.8
Very important	39	23.2	23.2	100.0
Total	168	100.0	100.0	

Source: Survey Data

Company's decision to go public indicates that, out of 168 respondents 87 (51.8%) moderately consider the decision to go public while 39 (23.2%) considers it as very important and 42 (25%) as not important.

Descriptive statistics for company's going public decision environment, namely, mean; standard deviation; and, Pearson's measure of skewness are summarized in Table 5.21 below.

Table 5.21 Mean and standard deviation for dependent and predictor variables

SN	Variables	Mean	Std. Deviation	Skewness		N
				Statistics	Std. Error	
1.	Listing rules requirements	2.2560	.67458	-0.122	0.187	168
2.	Prospectus information disclosure requirements	1.3214	.71193	2.365	0.187	168
3.	Portfolio diversification to allow risk sharing	2.0060	.69642	-0.008	0.187	168
4.	Company's reputation and credibility	2.3690	.69695	-0.649	0.187	168
5.	Company's external monitoring corporate governance	2.1667	2.49470	11.426	0.187	168
6.	Company's confidentiality	2.7321	.58395	-2.070	0.187	168
7.	Company's control	2.6548	.64732	-1.667	0.187	168
8.	Costs and fees requirements	1.9940	.81525	0.548	0.187	168
9.	Company's ordinance compliance requirements	2.3631	.68714	0.281	0.187	168

Source: Survey Data

Pearson's measure of skewness was used in order to determine shape and size of the curve through which the study could draw an inference about the given distribution of observed data while standard deviation was used to measure the average difference of observed values from mean. Low standard deviation indicates that data points are very close to mean, whereas high standard deviation indicates that data are spread out over a large range of observed values from mean.

5.3 Analytical Results

The previous sections discussed and results presented on background and environmental characteristics of respondents and descriptive statistics. The results focused on going public decision environment framework of the study. This section forms the basis for testing the research hypotheses of the study. More specifically, the section includes: correlation analysis; cross-tabulation analysis; and, regression analysis.

5.3.1 Correlation Analysis

Correlation results are presented based on three analytical considerations as follows: First, the findings consider and present correlation test as well as means and standard deviations among study variables. Correlations between company's interest to participate in capital markets and predictor variables are analysed and presented. This is followed by testing correlation among predictor variables, and finally between dependent and control variables.

5.3.1.1 Correlations among Variables

Correlations between variables are tested using the Pearson correlation test and findings are presented in the following section.

5.3.1.2 Correlations between Dependent and Explanatory Variables

Correlation coefficients as well as means and standard deviations of the variables measuring going public decision environment are, respectively, summarized in Table 5.22 on page 130. Correlation coefficients of one-tailed relationship were tested using a t-test at the levels of 10% and 5% with their critical values of 1.282 and 1.645 respectively.

Based on going public decision environment model, the dependent variable question on *'How seriously has the company considered going public'* is positively correlated with three predictor variables as follows: First, portfolio diversification to allow risk sharing at 10% *(β_{13} = .321)*; second, with both company's external monitoring and corporate governance *(β_{15} = .174)*, and costs and fees requirements *(β_{18} = .179)* at 5% .

5.3.1.3 Correlations among Predictor Variables

As expected, in Table 5.22 below, listing rules requirements are positively correlated with prospectus information disclosure at 5% *(β_{12} = .189)* and with both the costs and fees requirements and *(β_{18} = .231)* and company's ordinance compliance requirements *(β_{29} = .431)* at 10%. Interestingly, prospectus information disclosure requirements are negatively correlated with both company's confidentiality *(β_{36} = -.483)* and company control *(β_{37} = -.433)* at 10%. These results suggest that private companies are highly sensitive to company's information disclosure and separation of ownership from company's control.

In case of portfolio diversification to allow risk sharing, results indicate that, it is positively correlated with both company's reputation and credibility *(β_{44} = .366)*; and, external monitoring and corporate governance *(β_{45}= .199)* at 10%. Company's reputation and credibility is positively correlated with both external monitoring and corporate governance *(β_{55} = .174)* and company's confidentiality *(β_{56} = .171)* and, negatively correlated with going public costs and fees requirements *(β_{58} = -.154)* at 5%. Company's confidentiality is positively correlated with company's control at 10% *(β_{77}= .689)*. Company's control is negatively correlated with company's ordinance compliance requirements at 10% *(β_{89} = -.201)*. Costs requirement is positively correlated with company's ordinance compliance requirements *(β_{99} = .250)*.

Table 5.22 Correlations matrix of predictor variables

Variables/Pearson test (r)	1	2	3	4	5	6	7	8	9
Listing rules requirements	.112								
Prospectus inform disclos.	.072	**.189**							
Portfolio divers/risk sharing	**.321**	.009	-.064						
Company's reputation and credibility	.038	.142	-.072	**.366**					
Company's ext. monitoring	**.174**	-.100	.013	**.199**	**.174**				
Corporate governance									
Company's confidentiality	-.100	-.038	**-.483**	.078	**.171**	.010			
Company's control	-.107	-.139	**-.433**	-.009	.098	.006	**.689**		
Costs and fees requirements	**.179**	**.231**	.045	.116	**-.154**	.003	-.104	-.083	
Company's ordinance compliance	.151	**.431**	.139	.058	-.019	-.126	-.040	**-.201**	**.250**

N = 168

Source: Survey Data

5.3.1.4 Correlations of Dependent and Control Variables

Table 5.23 below shows that, there are six variables which are statistically correlated. The dependent variable negatively correlates with company's ownership structure and control at 10% *(β_1 = -.253).* Some of the control variables are also correlated with each other as follows: Company's age is negatively correlated with company's ownership structure and control at 10% *(β_1 = -.199).* Size of the company is positively correlated with stage of development *(β_1= .194)* and negatively correlated with both industry sector categories *(β_1 = -.185)* and level of knowledge on going public process and benefits *(β_1 = -.182)* at 5%. Finally, company's stage of development is negatively correlated with company's knowledge on going public process and benefits at 10% *(β_1 = -.306).*

5.23 Correlations matrix of control variables

Variables /Pearson test (r)	**1**	**2**	**3**	**4**	**5**	**6**	**7**
Company's Age	.078						
Company's Size	-.048	-.054					
Company's Ownership structure/control	**-.253**	**-.199**	-.056				
Company's Stage of development	-.083	-.120	**.194**	-.135			
Company's Industry sector	-.110	.077	**-.185**	-.039	-.007		
Knowledge on the going public	.028	.039	**-.182**	.109	**-.306**	.079	
Consequences of philosophy of Ujamaa	.144	.013	.123	-.015	.030	-.068	-.066

N = 168

Source: Survey Data

5.3.2 Cross tabulation

5.3.2.1 Industrial Sector by Companies' Ownership Structures

The study provides a detailed picture on the distribution of privately held businesses in Tanzania based on industry sector, ownership structure, age, size and development stage. Data from respondents are therefore analysed using the Company's classification. Table 5.24 below is a summarized analysis of data extracted from respondents' questionnaires showing company's sector, ownership structure and size.

Table 5.24 Company's classification based on industry sector, ownership structure and size

Industry Sector	FAMILY OWNED				NON-FAMILY OWNED				TOTAL	
	Small *(1-49Emplys)*		Large *(> 49Emplys)*		Small *(1-49Emplys)*		Large *(> 49Emplys)*			
	f	*%*	*f*	*%*	*f*	*%*	*f*	*%*	*f*	*%*
Wholesale	25	42.4	4	26.7	22	31.0	4	17.5	55	32.7
Transport	13	22.0	4	26.7	8	11.3	4	21.7	28	16.7
Manufacturing	5	8.5	4	26.7	6	8.4	9	34.8	24	14.73
Hotels	6	10.2	2	13.3	6	8.4	2	8.7	16	9.5
Construction	4	6.8	-	-	8	11.3	2	8.7	14	8.3
Real Estate	-	-	1	6.7	10	14.1	1	4.3	12	7.1
Agriculture	4	6.8	-	-	1	1.4	-	-	5	3.0
Education	2	3.4	-	-	2	2.8	-	-	4	2.4
Mining	-	-	-	-	2	2.8	1	4.3	3	1.8
Electricity	-	-	-	-	2	2.8	-	-	2	1.2
Financial Inter.	-	-	-	-	2	2.8	-	-	2	1.2
Health	-	-	-	-	2	2.8	-	-	2	1.2
Community services	-	-	1	1.4	-	-	-	-	1	1.4
TOTAL	59	35.1	15	8.9	71	42.3	23	13.7	168	100

Source: Survey Data

Results show that out of 130 small companies, 42% are family owned and 57% are non-family owned. On the other side, out of 38 larger companies, 40% are family owned and 60% are non-family owned. In this study, family business is defined as one in which majority of votes (directly or indirectly) is in the hands of natural person(s) who established the company, in passion of natural person(s) who has/have acquired share capital of the company, or in possession of their spouses, partners, child or children's direct heirs. Also, at least one representative of the family or kin is involved in the management or administration of the company.

Table 5.25 below is a summarized analysis of information extracted from respondents' questionnaires showing company's sector, ownership structure and age.

Table 5.25 Company's classification based on industry sector, ownership structure and age

INDUSTRY SECTOR	FAMILY OWNED				NON-FAMILY OWNED				TOTAL	
	New *(3-10 Yrs.)*		Older *(> 10 Yrs.)*		New *(3-10 Yrs.)*		Older *(> 10 Yrs.)*			
	f	*%*	*f*	*%*	*f*	*%*	*f*	*%*	*f*	*%*
Wholesale	10	33.3	19	43.2	17	29.8	9	24.3	55	32.7
Transport	5	16.7	10	22.7	10	17.5	3	8.1	28	16.7
Manufacturing	5	16.7	4	9.1	5	8.7	10	27.0	24	14.3
Hotels	6	20.0	2	4.5	4	7.0	4	10.8	16	9.5
Construction	3	10.0	1	2.3	5	8.8	5	13.5	14	8.3
Real Estate	-	-	1	2.3	10	17.5	1	2.7	12	7.1
Agriculture	-	-	4	9.1	-	-	1	2.7	5	3.0
Education	1	3.3	1	2.3	2	3.5	-	-	4	2.4
Mining	-	-	-	-	2	3.5	1	2.7	3	1.8
Electricity	-	-	-	-	-	-	2	5.4	2	1.2
Financial Inter.	-	-	-	-	2	3.5	-	-	2	1.2
Health	-	-	-	-	1	1.8	1	2.7	2	1.2
Community service	-	-	1	2.3	-	-	-	-	1	2.3
TOTAL	30	17.9	44	26.2	57	33.9	37	22.0	168	100

Source: Survey Data

Results show that, out of 87 new companies, 34% are family held companies and 66% are non-family owned. For the 81 older companies, 46% are non-family owned and 54% are family owned companies. Out of 168 respondents, 64% are companies operating in wholesale, transport and manufacturing.

5.3.2.2 How Seriously has the Company Considered Going Public?

Respondents were asked to rate the importance of going public. The question used to solicit this information focused on how seriously the company had considered going public. Using a 5-point scale from 1 to 5, responses ranked their answers based on: (1-2) = *'no interest'*; 3 = *'moderate interest'*; and, (4-5) = *'high interest'* as summarized in Table 5.26 below. Results show that, 49.5% of non-family owned and 54.7% of family owned companies indicated that they had moderately considered going public.

Table 5.26 How seriously has the company considered going public?

Company's Category		How seriously has the company considered going public?			
		No Interest	Moderate Interest	High Interest	Total
Private profit making-non family	N	17	46	30	93
	%	18.3	49.5	32.3	100
Private profit making-family	N	25	41	9	75
	%	33.3	54.7	12.0	100
Total	N	42	87	39	168
	%	25.0	51.8	23.2	100

Source: Survey Data

These results are consistent with the results of Byam et al. (2002) who revealed that, many firms in EAC tend to rely on bank finance as well as a proven network of family and friends to raise additional capital when required. Results are also a reflection of the findings by Mbwambo (2005) who revealed that, while entrepreneurs shout about lack of external financing, most of them seem to be inward looking and lack the confidence to go for borrowing.

Similar findings are revealed by Brau and Fawcett (2006) study pointed out that, majority of CFOs (57.6%) replied that their firm had no interest in going public, while 22.4% indicated little interest and about 20% high interest. While Denmark is a small country with only 5.3 million inhabitants, there are more than 400,000 privately held firms. Only 185 companies are listed on Copenhagen Stock Exchange (Petersen et al. 2005). Their results are consistent with Diloitte (2005) findings that the vast majority of privately held companies in Tanzania prefer to remain private. A similar study was conducted by Mayur and Kumar (2006) and revealed that, the size of the company was the major determinant affecting the probability of going public. The age of companies is found to be negatively related to their probability of going public.

5.3.2.3 Knowledge on Going Public Concepts

Respondents were asked to respond to a question on the extent of their knowledge on various issues related to private company's going public decisions. They were asked to rank their level of understanding based on a 5- point scale with (1-2) representing *'not*

much'; (3) *'moderate'*; and, (4-5) *'very much'*. Results are presented in tables 5.27 to 5.39 below.

Table 5.27 presents the results from respondents on the question investigating the extent to which respondents are knowledgeable about private company's going public process.

Table 5.27 Company's knowledge on going public process and benefits

Company's Category		Knowledge on going public process and benefits				
		Not much	Moderate	Very much	No opinion	Total
Private profit making-non family	N	35	33	25	-	93
	%	37.6	35.5	26.9	-	100
Private profit making-family	N	33	26	14	2	75
	%	44.0	34.7	18.7	2.7	100
Total	N	68	59	39	2	168
	%	40.5	35.1	23.2	1.2	100

Source: Survey Data

The table 5.27 above shows that, company's knowledge on going public process and benefits are evenly distributed ranging from 18.7% to 26.9% for *very much* to 37.6% to 44% for *not much* representing both family and non-family owned companies, respectively.

Table 5.28 below presents respondent's knowledge on the functions of Capital Markets & Securities Authorities.

Table 5.28 Knowledge on Capital Markets & Securities Authorities

Company's Category		Knowledge on Capital Markets & Securities Authorities					
		Not much	Moderate	Very much	No opinion	No response	Total
Private profit making-non family	N	37	43	10	2	1	93
	%	39.8	46.2	10.8	2.2	1.1	100
Private profit making-family	N	46	21	4	4	-	75
	%	61.3	28.0	5.3	5.3	-	100
Total	N	83	64	14	6	1	168
	%	49.4	38.1	8.3	3.6	.6	100

Source: Survey Data

When asked to what extent they were knowledgeable about the functions of CMSA, respondents indicated that: 61.3% of family owned companies had a higher number of

respondents who are *not much* knowledgeable while 46.2% of non-family owned companies had *moderate* knowledge as shown in table 5.28 above. However, when results were further analysed at regional level to explore the level of knowledge from each region of study (table 5.29 below), results revealed that family owned companies from Arusha (75%) and Kilimanjaro (76.9%) contributed the biggest number of respondents with *no much* knowledge on the functions of CMSA. These results are somewhat surprising in light of the socio-economic environment that exists in these two neighbouring regions. Arusha was expected to have a higher rate of respondents with a fairly moderate level of Knowledge on Capital Markets & Securities Authorities given that it frequently hosts various international economic forums as well as being the headquarters of East Africa Community, and a tourist centre. Moreover, Arusha was ranked by Diloitte (2005) as one among the regions in Tanzania with entrepreneurs who are more knowledgeable in capital markets functions and benefits.

Table 5.29 Knowledge on CMSA at regional level

Region to which study was conducted			Not much	Moderate	Very much	No opinion	No response	Total
Arusha	Private profit making-non family	N	8	7	1	-	-	16
		%	50.0	43.8	6.3	-	-	100
	Private profit making-family	N	12	-	2	2	-	16
		%	75.0	-	12.5	12.5	-	100
	Total	N	20	7	3	2	-	32
		%	62.5	21.9	9.4	6.3	-	100
DSM	Private profit making-non family	N	18	29	6	-	1	54
		%	33.3	53.7	11.1	-	1.9	100
	Private profit making-family	N	24	19	2	1	-	46
		%	52.2	41.3	4.3	2.2	-	100
	Total	N	42	48	8	1	1	100
		%	42.0	48.0	8.0	1.0	1.0	100
Kilimanjaro	Private profit making-non family	N	11	7	3	2	-	23
		%	47.8	30.4	13.0	8.7	-	100
	Private profit making-family	N	10	2	-	1	-	13
		%	76.9	15.4	-	7.7	-	100
	Total	N	21	9	3	3	-	36
		%	58.3	25.0	8.3	8.3	-	100

Source: Survey Data

When respondents were asked about their knowledge on going public rules and regulations, results (as shown in Table 5.30 below) indicate that 50.5% of non-family owned and 66.7% of family owned companies indicated *not much*.

Table 5.30 Knowledge on going public rules and regulations

Company's Category		Knowledge on going public rules and regulations				
		Not much	Moderate	Very much	No opinion	Total
Private profit making-non family	N	47	36	9	1	93
	%	50.5	38.7	9.7	1.1	100
Private profit making-family	N	50	18	2	5	75
	%	66.7	24.0	2.7	6.7	100
Total	N	97	54	11	6	168
	%	57.7	32.1	6.5	3.6	100

Source: Survey Data

At regional level, a similar trend appears as shown in Table 5.31 below. Dar es Salaam (65.2%), Arusha (68.8%) and Kilimanjaro (69.2%) for family owned companies indicated to have *no much* knowledge about rules and regulations governing going public companies. However, for non-family owned companies, Kilimanjaro (69.6%) had the highest rate while Arusha and Dar es Salaam had 37.5% and 46.3% respondents respectively for companies which did not know much about rules and regulations for companies wishing to go public.

Table 5.31 Knowledge on going public rules and regulations at regional level

Region to which study was conducted			Not much	Moderate	Very much	No opinion	Total
Arusha	Private profit making-non family	N	6	9	1	-	16
		%	37.5	56.3	6.3	-	100
	Private profit making-family	N	11	3	-	2	16
		%	68.8	18.8	-	12.5	100
	Total	N	17	12	1	2	32
		%	53.1	37.5	3.1	6.3	100
DSM	Private profit making-non family	N	25	22	7	-	54
		%	46.3	40.7	13.0	-	100
	Private profit making-family	N	30	13	2	1	46
		%	65.2	28.3	4.3	2.2	100
	Total	N	55	35	9	1	100
		%	55.0	35.0	9.0	1.0	100
Kilimanjaro	Private profit making-non family	N	16	5	1	1	23
		%	69.6	21.7	4.3	4.3	100
	Private profit making-family	N	9	2	-	2	13
		%	69.2	15.4	-	15.4	100
	Total	N	25	7	1	3	36
		%	69.4	19.4	2.8	8.3	100

Source: Survey Data

Similarly, Table 5.32 below shows that, majority of respondents from family owned companies (68%) and non-family owned companies (53.8%) indicated that they did not have much knowledge about costs of going public.

Table 5.32 Knowledge on costs of going public

Company's Category		Knowledge on costs of going public				
		Not much	Moderate	Very much	No opinion	Total
Private profit making-non family	N	50	35	6	2	93
	%	53.8	37.6	6.5	2.2	100
Private profit making-family	N	51	17	1	6	75
	%	68.0	22.7	1.3	8.0	100
Total	N	101	52	7	8	168
	%	60.1	31.0	4.2	4.8	100

Source: Survey Data

At regional level, results in Table 5.33 below indicate that: For family owned companies, Dar es Salaam (67.4%), Arusha (68.8%) and Kilimanjaro (69.2%); and, for non-family owned companies Arusha (50%), Dar es Salaam (51.9%) and Kilimanjaro (60.9%) had *no much* knowledge about costs of going public.

Table 5.33 Knowledge on costs of going public at regional level

Region to which study was conducted			Not much	Moderate	Very much	No opinion	Total
Arusha	Private profit	N	8	7	1	-	16
	making-non family	%	50.0	43.8	6.3	-	100
	Private profit	N	11	3	-	2	16
	making-family	%	68.8	18.8	-	12.5	100
	Total	N	19	10	1	2	32
		%	59.4	31.3	3.1	6.3	100
DSM	Private profit	N	28	22	4	-	54
	making-non family	%	51.9	40.7	7.4	-	100
	Private profit	N	31	13	1	1	46
	making-family	%	67.4	28.3	2.2	2.2	100
	Total	N	59	35	5	1	100
		%	59.0	35.0	5.0	1.0	100
Kilimanjaro	Private profit	N	14	6	1	2	23
	making-non family	%	60.9	26.1	4.3	8.7	100
	Private profit	N	9	1	-	3	13
	making-family	%	69.2	7.7	-	23.1	100
	Total	N	23	7	1	5	36
		%	63.9	19.4	2.8	13.9	100

Source: Survey Data

As expected, the majority of family owned companies (61.3%) and non-family owned companies (62.4%) indicated to have *very much* knowledge about Companies' ordinance compliance requirements as shows in Table 5.34 below. However, these results may reflect the picture that companies' responses were due to the fact that when responding to the question, respondents did not consider seriously the going public requirements which are stated in the companies Act 2002 (cap.212). They might have considered only the role of BRELA as a company's registration agency.

Table 5.34 Knowledge on companies' ordinance compliance requirements

Company's Category		Knowledge on companies' ordinance compliance requirements					
		Not much	Moderate	Very much	No opinion	No response	Total
Private profit	N	12	20	58	2	1	93
making-non family	%	12.9	21.5	62.4	2.2	1.1	100
Private profit	N	10	14	46	5	-	75
making-family	%	13.3	18.7	61.3	6.7	-	100
Total	N	22	34	104	7	1	168
	%	13.1	20.2	61.9	4.2	0.6	100

Source: Survey Data

At regional level, only Arusha (50% and 81.3%) and Dar es Salaam (70.4% and 71.7%) for non-family and family owned companies, respectively, indicated that they had *much knowledge*. Respondents from Kilimanjaro were indifferent as to whether they were *very much* or *not much* knowledgeable about the Companies' ordinance compliance requirements as indicated in Table 5.35 below.

Table 5.35 Regional knowledge on company's ordinance compliance requirements

Region to which study was conducted			Not much	Moderate	Very much	No opinion	No response	Total
Arusha	Private profit	N	2	1	13	-	-	16
	making-non family	%	12.5	6.3	81.3	-	-	100
	Private profit	N	5	1	8	2	-	16
	making-family	%	31.3	6.3	50.0	12.5	-	100
	Total	N	7	2	21	2	-	32
		%	21.9	6.3	65.6	6.3	-	100
DSM	Private profit	N	-	15	38	-	1	54
	making-non family	%	-	27.8	70.4	-	1.9	100
	Private profit	N	3	9	33	1	-	46
	making-family	%	6.5	19.6	71.7	2.2	-	100
	Total	N	3	24	71	1	1	100
		%	3.0	24.0	71.0	1.0	1.0	100
Kilimanjaro	Private profit	N	10	4	7	2	-	23
	making-non family	%	43.5	17.4	30.4	8.7	-	100
	Private profit	N	2	4	5	2	-	13
	making-family	%	15.4	30.8	38.5	15.4	-	100
	Total	N	12	8	12	4	-	36
		%	33.3	22.2	33.3	11.1	-	100

Source: Survey Data

Consistent with previous results, the respondents' level of knowledge about equity financing shown in Table 5.36 below indicates that both non-family owned companies (52.7%) and family owned companies (66.7%) had *no much* knowledge on equity financing.

Table 5.36 Knowledge on equity financing

Company's Category		Knowledge on equity financing				
		Not much	Moderate	Very much	No opinion	Total
Private profit making-non family	N	49	24	18	2	93
	%	52.7	25.8	19.4	2.2	100
Private profit making-family	N	50	16	4	5	75
	%	66.7	21.3	5.3	6.7	100
Total	N	99	40	22	7	168
	%	58.9	23.8	13.1	4.2	100

Source: Survey Data

At regional level, the knowledge level on equity financing, as shown in Table 5.36 is more or less similar to observation shown in Table 5.37 below with Arusha (50% and 62.5%); Dar es Salaam (51.9% and 69.6%); and, Kilimanjaro (56.5% and 61.5%) for non-family and family owned companies respectively.

Table 5.37 Knowledge on equity financing at regional level

Region to which study was conducted			Not much	Moderate	Very much	No opinion	Total
Arusha	Private profit making–non family	N	8	5	3	-	16
		%	50.0	31.3	18.8	-	100
	Private profit making–family	N	10	2	2	2	16
		%	62.5	12.5	12.5	12.5	100
	Total	N	18	7	5	2	32
		%	56.3	21.9	15.6	6.3	100
DSM	Private profit making-non family	N	28	15	11	-	54
		%	51.9	27.8	20.4	-	100
	Private profit making-family	N	32	11	2	1	46
		%	69.6	23.9	4.3	2.2	100
	Total	N	60	26	13	1	100
		%	60.0	26.0	13.0	1.0	100
Kilimanjaro	Private profit making-non family	N	13	4	4	2	23
		%	56.5	17.4	17.4	8.7	100
	Private profit making-family	N	8	3	-	2	13
		%	61.5	23.1	-	15.4	100
	Total	N	21	7	4	4	36
		%	58.3	19.4	11.1	11.1	100

Source: Survey Data

Similarly, the level of knowledge on corporate bond financing is shown in Table 5.38 below with scores of 54.8% and 61.3% for non-family owned companies and family owned companies, respectively.

Table 5.38 Knowledge on corporate bond financing

Company's Category		Knowledge on corporate bond financing				
		Not much	Moderate	Very much	No opinion	Total
Private profit making-non family	N	51	26	16	-	93
	%	54.8	28.0	17.2	-	100
Private profit making-family	N	46	17	4	8	75
	%	61.3	22.7	5.3	10.7	100
Total	N	97	43	20	8	168
	%	57.7	25.6	11.9	4.8	100

Source: Survey Data

At regional level, similar trends are observed for Arusha (50% and 56.3%); Dar es Salaam (53.7% and 63%); and, Kilimanjaro (60.9% and 61.5%) for non-family owned and family owned companies, respectively, as shown in Table 5.39 below.

Table 5.39 Knowledge on corporate bond financing at regional level

Region to which study was conducted			Not much	Moderate	Very much	No opinion	Total
Arusha	Private profit making-non family	N	8	5	3	-	16
		%	50.0	31.3	18.8	-	100
	Private profit making-family	N	9	3	2	2	16
		%	56.3	18.8	12.5	12.5	100
	Total	N	17	8	5	2	32
		%	53.1	25.0	15.6	6.3	100
DSM	Private profit making-non family	N	29	14	11	-	54
		%	53.7	25.9	20.4	-	100
	Private profit making-family	N	29	12	2	3	46
		%	63.0	26.1	4.3	6.5	100
	Total	N	58	26	13	3	100
		%	58.0	26.0	13.0	3.0	100
Kilimanjaro	Private profit making-non family	N	14	7	2	-	23
		%	60.9	30.4	8.7	-	100
	Private profit making-family	N	8	2	-	3	13
		%	61.5	15.4	-	23.1	100
	Total	N	22	9	2	3	36
		%	61.1	25.0	5.6	8.3	100

Source: Survey Data

When respondents were asked *'if financing of their companies' fixed investments has changed over the past 3-5 year'*, findings presented in Table 5.40 indicate a fairly balanced result of *'Yes*-37.3%' with *'No*-49.3%' for family owned companies and *'Yes*-26.9%' and *'No*-45.2%' for non-family owned companies. However, an interesting response is on the *No-opinion* (22.6%) for non-family owned companies which could be an indication of unwillingness to reveal company's sensitive information.

Table 5.40 Has financing of company's fixed investments changed over the past 3-5 years

Company's Category		Financing of company's fixed investments changed over the past 3-5 years				
		Yes	No	Don't know	No response	Total
Private profit making-non family	N	25	42	5	21	93
	%	26.9	45.2	5.4	22.6	100
Private profit making-family	N	28	37	3	7	75
	%	37.3	49.3	4.0	9.3	100
Total	N	53	79	8	28	168
	%	31.5	47.0	4.8	16.7	100

Source: Survey Data

5.3.2.4 Legal Status and Financing Constraints

From the reviewed literature, it is revealed that private sector companies in emerging market economies and, particularly in SSA, are operating under a wide range of constraints and have found it difficult to be competitive in a world of rapid globalization. There is thus a limited demand for investment capital by private sector companies due to inability to take advantage of available long-term financing opportunities. In order to explore more information on going public decision constraints in Tanzania, Cross-tabulation analysis was conducted to determine other macro-economic factors that might have influenced private sector companies' going public decisions.

Company's Financing Constraints

Respondents were asked on how problematic were: Banks collateral requirements; interest rates; corruption; inflation; tax compliance requirement; and, access to venture capital to the operations and growth of a company's business.

In testing the sensitivity of respondents on banks collateral requirements, 39.8% of non-family owned companies and 61.3% of family owned companies reveals that banks collateral requirements were a major obstacle in financing their companies' business operations and growth, as shown in Table 5.41 below. The results are in line with Mbwambo (2005) who pointed out that, while during the monopoly era one could hardly have his/her collateral auctioned, today that part of life and many entrepreneurs who are not sure of effective financial discipline in their businesses are averse to loans.

Table 5.41 Banks collateral requirement

Company's Category		Banks collateral requirement				
		No obstacle	Moderate	Major obstacle	No opinion	Total
Private profit making-non family	N	20	29	37	7	93
	%	21.5	31.2	39.8	7.5	100
Private profit making-family	N	11	14	46	4	75
	%	14.7	18.7	61.3	5.3	100
Total	N	31	43	83	11	168
	%	18.5	25.6	49.4	6.5	100

Source: Survey Data

Respondents to the question on *'how problematic are interest rates to operations and growth of their companies'*; the majority of non-family owned (60.2%) and family owned (80%) companies indicated that it was a major obstacle as shown in Table 5.42 below. The results are consistent with Wiketye (1984) findings which revealed that; interest rate is one of the important factors in financing economic growth to less developed countries. According to his findings, apart from being an inducement to save, interest rates are also an incentive to channel the savings more efficiently into financial institutions and thus to the most productive use. Similarly, Beck et al. (2004) findings revealed that, high interest rates top the list of specific financial obstacles.

Table 5.42 Interest rates

Company's category		Interest rates					
		No obstacle	Moderate	Major obstacle	No opinion	No response	Total
Private profit making-non family	N	10	19	56	8	-	93
	%	10.8	20.4	60.2	8.6	-	100
Private profit making-family	N	4	9	60	1	1	75
	%	5.3	12.0	80.0	1.3	1.3	100
Total	N	14	28	116	9	1	168
	%	8.3	16.7	69.0	5.4	0.6	100

Source: Survey Data

When respondents were requested to rate *'how problematic is corruption to the operations and growth of their businesses'*, their responses were as follows: 79.6% of non-family owned and 82.7% of family owned companies considered corruption as a major obstacle, as shown in Table 5.43 below. These results are consistent with Warioba Commission Report (Mwapachu, 2001) on corruption in Tanzania which revealed that, one of the principal sources of corruption in the country was the close relationship existing between political leadership and private business. The results are also consistent with other studies in other emerging market economies such as Allen, Chakrabarti, De, and Qian (2006) study, with Indian's English Common– law origin where the legal protection of investors provided by the law is one of the strongest in the world. However, widespread corruption within Indian's legal system and government significantly weakens legal protection in practice. Linden (2005) findings conclude that, corruption is a decisive barrier to creating stable investment climates and transparent markets. It

creates weighty extra costs for the private sector and substantially undermines business confidence.

Table 5.43 Corruption

Company's Category		Corruption					
		No obstacle	Moderate	Major obstacle	No opinion	No response	Total
Private profit making-non family	N	1	13	74	4	1	93
	%	1.1	14.0	79.6	4.3	1.1	100
Private profit making-family	N	3	9	62	1	-	75
	%	4.0	12.0	82.7	1.3	-	100
Total	N	4	22	136	5	1	168
	%	2.4	13.1	81.0	3.0	0.6	100

Source: Survey Data

When respondents were asked to rate how problematic was inflation to a company's business operations and growth, the majority of non-family owned (88.2%) and family owned (89.3%) indicated that it was a major obstacle as shown in Table 5.44 below.

Table 5.44 Inflation

Company's Category		Inflation					
		No obstacle	Moderate	Major obstacle	No opinion	No response	Total
Private profit making-non family	N	5	5	82	1	-	93
	%	5.4	5.4	88.2	1.1	-	100
Private profit making-family	N	-	5	67	2	1	75
	%	-	6.7	89.3	2.7	1.3	100
Total	N	5	10	149	3	1	168
	%	3.0	6.0	88.7	1.8	0.6	100

Source: Survey Data

Similarly, in table 5.45 where respondents were *'asked how problematic tax compliance requirement was to their company's business operations and growth'*, family owned companies indicated a higher percentage of 57.3% that it was a major obstacle. 48.4% of non-family owned companies considered it as just a moderate obstacle to their business operations and growth. These results are a good indication of awareness of majority of Tanzanians on the importance of paying tax. It is also an indication that tax compliance requirements in the country are no longer an obstacle to Tanzanian entrepreneurs. However, one of the disadvantages of being a public traded company is the greater

transparency of company accounts to tax authorities. This implies that, though governments have installed fiscal incentives for listed companies, many private sector companies still believe they can pay much less tax (or none at all) by remaining private.

Table 5.45 Tax compliance requirement

Company's Category		Tax compliance requirement				
		No obstacle	Moderate	Major obstacle	No opinion	Total
Private profit making-non family	N	18	45	29	1	93
	%	19.4	48.4	31.2	1.1	100
Private profit making-family	N	10	21	43	1	75
	%	13.3	28.0	57.3	1.3	100
Total	N	28	66	72	2	168
	%	16.7	39.3	42.9	1.2	100

Source: Survey Data

When respondents (Table 5.46 below) were asked how problematic access to venture capital financing was, results indicated that non-family owned companies (54.8%) and family owned companies (73.3%) considered it as a major obstacle.

Table 5.46 Access to venture capital

Company's Category		Access to venture capital					
		No obstacle	Moderate	Major obstacle	No opinion	No response	Total
Private profit making-non family	N	24	11	51	6	1	93
	%	25.8	11.8	54.8	6.5	1.1	100
Private profit making-family	N	10	6	55	4	-	75
	%	13.3	8.0	73.3	5.3	-	100
Total	N	34	17	106	10	1	168
	%	20.2	10.1	63.1	6.0	0.6	100

Source: Survey Data

5.3.2.4 Use of International Accounting Standards

For private companies to qualify for going public, they are required to prepare and submit their audited accounts to capital markets regulatory authorities, using internationally acceptable accounting and auditing standards. Respondents were therefore asked if their companies were using international accounting standards. This was an important question to determine the potentialities of the responding companies for going public. Results, as revealed in Table 5.47 below, show that 66.7% of the family owned and 79.6% of the non-family companies used international accounting standards. These results point in the

same direction as findings by Morck, Strangeland and Yeung (2000) for both Canadian family and non-family firms but show contradicting evidence with Anderson & Reeb (2003) and McConaughy, Walker, Henderson and Chandra (1998) findings.

Table 5.47 Does the company use international accounting standards?

Company's Category		Use international accounting standards			
		Yes	No	Don't know	Total
Private profit making-non family	N	74	12	7	93
	%	79.6	12.9	7.5	100
Private profit making-family	N	50	23	2	75
	%	66.7	30.7	2.7	100
Total	N	124	35	9	168
	%	73.8	20.8	5.4	100

Source: Survey Data

5.3.2.5 Legal Status and Factors Influencing the Decision not to Go-public

Furthermore, questions were posed on the decision not to go public due to company's industry sector risk categories, size and age of the company. Table 5.48 shows that 48.4% of non-family owned and 53.3% of family owned companies indicated that, industry sector risk category had moderate influence in their companies' decisions not to go public.

Table 5.48 To what extent has industry sector risk category influenced company's decision not to go public?

Company's Category		Industry sector risk category influenced decision not to go public				
		No influence	Moderate	Great influence	No opinion	Total
Private profit making-non family	N	26	45	21	1	93
	%	28.0	48.4	22.6	1.1	100
Private profit making-family	N	23	40	9	3	75
	%	30.7	53.3	12.0	4.0	100
Total	N	49	85	30	4	168
	%	29.2	50.6	17.9	2.4	100

Source: Survey Data

Table 5.49 below indicates that, there was no remarkable influence which could be noted from a company's size or age that influenced the respondents' decision not to go public.

Table 5.49 To what extent have size and age of the company influenced company's decision not to go public?

Company's Category		Size and age influenced company's decision not to go public				
		No influence	Moderate	Great influence	No opinion	Total
Private profit making-non family	N	36	42	12	3	93
	%	38.7	45.2	12.9	3.2	100
Private profit making-family	N	27	32	15	1	75
	%	36.0	42.7	20.0	1.3	100
Total	N	63	74	27	4	168
	%	37.5	44.0	16.1	2.4	100

Source: Survey Data

5.3.2.6 Going Public Securities Preference

Respondents were asked to identify the type of security between equity and corporate bonds they would give more preference to offer to investors if they decide to go public. Results presented in Table 5.50 below reveal that, majority of respondents: 54.7% from family owned companies and 59.1% from non-family owned companies preferred equity shares over corporate bonds. Also the no-opinion respondents were fairly high, with 20% for family owned and 16.1% for non-family owned companies.

Table 5.50 Which security would company give more preference to offer to public?

Company's Category		Preference to offer to public				
		Corporate bonds	Equity shares	No opinion	No response	Total
Private profit making-non family	N	22	55	15	1	93
	%	23.7	59.1	16.1	1.1	100
Private profit making-family	N	18	41	15	1	75
	%	24.0	54.7	20.0	1.3	100
Total	N	40	96	30	2	168
	%	23.8	57.1	17.9	1.2	100

Source: Survey Data

5.3.2.7 Going Public Decision and Predictor Variables (Cross-tab)

Further analysis was performed using cross-tabulation to determine the relationship that existed between the dependent and predictor variables. The question raised in the questionnaire for the dependent variable was: *'How seriously has the company considered going public'.* Responses to this question were based on a 5-point scale ranging from 1 = *no interest* to 5 = *serious interest*. On the other side, nine explanatory

variables and two control variables were asked in the questionnaires as shown in Table 5.51 to 5.59 below.

Results for the dependent variable question which appear in all the eleven tables below indicate that, 23.2% considered going public with *serious interest*, 25% had *no interest*, while 51.8% considered going public with *moderate interest*. Results for nine explanatory questions asked in the questionnaire are summarized in Table 5.51 to 5.59 below. The first explanatory question asked was: *If the company decides to go public, how would you evaluate going public listing rules requirements?* Results are summarized in table 5.51 below based on a 5-point scale ranging from 1 = *not an obstacle* to 5 = *major obstacle*.

Table – 5.51: Going public decision and listing Rules Requirements

Predictor variable			Listing rules requirements				Total
			Not obstacle	Moderate	Major obstacle	No opinion	
GOING PUBLIC DECISION	No interest	N	10	22	8	2	42
		%	23.8	52.4	19.0	4.8	25
	Moderate interest	N	31	48	8	-	87
		%	35.6	55.2	9.2	-	51.8
	Serious interest	N	18	17	4	-	39
		%	46.2	43.6	10.3	-	23.2
Total		N	59	87	20	2	168
		%	35.1	51.8	11.9	1.2	100

Source: Survey Data

Results indicate that, out of 168 respondents 51.8% evaluate going public listing rules requirements as a *moderate obstacle* to the company's going public decision. On the other side, 11.9% consider it as a *major obstacle* while 35.1% consider it as not *an obstacle*.

The second explanatory question asked in the questionnaire was: *If the company decides to go public, how would you evaluate going public prospectus information disclosure requirements?* Results are summarized in Table 5.52 below based on a 5-point scale ranging from 1 = *not an obstacle* to 5 = *major obstacle.*

Tables – 5.52: Going public decision and prospectus information disclosure requirements

Predictor variable			Prospectus information disclosure requirements				Total
			Major obstacle	Moderate	Not an obstacle	No opinion	
	No interest	N		6	33	3	42
GOING		%		14.3	78.6	7.1	25.0
PUBLIC	Moderate interest	N	4	8	74	1	87
DECISION		%	4.6	9.2	85.1	1.1	51.8
	Serious interest	N	5	7	26	1	39
		%	12.8	17.9	66.7	2.6	23.2
Total		N	9	21	133	5	168
		%	5.4	12.5	79.2	3.0	100

Source: Survey Data

Results indicate that, out of 168 respondents, 79.2% evaluate disclosure information requirements as a *major obstacle* to company's going public while only 5.4% indicate it as *not an obstacle*.

When respondents were asked (as explanatory variable): *If the company decides to go public, how would you evaluate portfolio diversification to allow risk sharing?* Results are summarized in Table 5.53 based on a 5-point scale ranked as 1 = *not important* to 5 = *very important*.

Table – 5.53: Going public decision and portfolio diversification to allow risk sharing

Predictor variable			Portfolio diversification to allow risk sharing			Total
			Not important	Average	Very important	
	No interest	N	19	17	6	42
GOING		%	45.2	40.5	14.3	25.0
PUBLIC	Moderate interest	N	15	56	16	87
DECISION		%	17.2	64.4	18.4	51.8
	Serious interest	N	6	14	19	39
		%	15.4	35.9	48.7	23.2
Total		N	40	87	41	168
		%	23.8	51.8	24.4	100

Source: Survey Data

Results show that, 51.8% of respondents evaluated portfolio diversification to allow risk sharing as *average important* factor in decision to go public. Otherwise, 23.8% and 24.4% consider it as *not important* and *very important*, respectively.

When respondents were asked (as an explanatory variable) that: *If the company decides to go public, how would you evaluate company's reputation and credibility?* Results are summarized in Table 5.54 below. Out of 168 responses, 49.4% considered company's reputation and credibility as *very important* factor to the company's decision to go public, while, 12.5% and 38.1% consider it as *not important and moderate* factor, respectively.

Table – 5.54: Going public decision and company's reputation and credibility

Predictor variable			Company's reputation and credibility			Total
			Not important	Average	Very important	
GOING PUBLIC DECISION	No interest	N	11	7	24	42
		%	26.2	16.7	57.1	25.0
	Moderate interest	N	5	43	39	87
		%	5.7	49.4	44.8	51.8
	Serious interest	N	5	14	20	39
		%	12.8	35.9	51.3	23.2
Total		N	21	64	83	168
		%	12.5	38.1	49.4	100

Source: Survey Data

When the respondents were asked (explanatory variable) that: *If the company decides to go public, how would you evaluate company's external monitoring and corporate governance?* The results are summarized in Table 5.55 below.

Table – 5.55: Going public decision and company's external monitoring and corporate governance

Predictor variable			Company's external monitoring & corporate governance				Total
			Not important	Average	Very important	No opinion	
GOING PUBLIC DECISION	No interest	N	17	20	5		42
		%	40.5	47.6	11.9		25.0
	Moderate interest	N	17	52	17	1	87
		%	19.5	59.8	19.5	1.1	51.8
	Serious interest	N	8	15	15	1	39
		%	20.5	38.5	38.5	2.6	23.2
Total		N	42	87	37	2	168
		%	25.0	51.8	22.0	1.2	100

Source: Survey Data

Results indicate that, 51.8% were indifferent (*average importance*) when asked to evaluate the importance of companies' external monitoring and corporate governance in the decision to going public.

When respondents were asked (as explanatory variable): *If the company decides to go public, how would you evaluate company's confidentiality?* Results are summarized in Table 5.56 below.

Table – 5.56: Going public decision by company's confidentiality

Predictor variable			Company's confidentiality			Total
			Not important	Average	Very important	
GOING PUBLIC DECISION	No interest	N	4	4	34	42
		%	9.5	9.5	81.0	25.0
	Moderate interest	N	3	9	75	87
		%	3.4	10.3	86.2	51.8
	Serious interest	N	5	8	26	39
		%	12.8	20.5	66.7	23.2
Total		N	12	21	135	168
		%	7.1	12.5	80.4	100

Source: Survey Data

As expected, for private sector Company's confidentiality syndrome, results indicate that 80.4% evaluate company's confidentiality as a *very important* factor to consider when a company needs to decide whether to go public or remain private. On the other hand, only 7.1% and 12.5% evaluate company's confidentiality as *not important* and *average important*, respectively

Another question (as explanatory variable) asked was: *If the company decides to go public, how would you evaluate company's control?* Results presented in Table 5.57 indicate that, the majority 75% evaluate maintaining company's control as a *very important* factor to be considered if the company decides to go public. Only 9.5% and 15.5% responded in favour of *not important* and *average important*, respectively. Although the percentages may not be similar, these results are consistent with Wagacha (2001) findings which revealed that, 25% of Kenyan firms cited loss of control as the main reason for not listing. Also Brau and Fawcett (2006) findings noted that maintaining decision making control (56%) as the most important factor in going public.

Table – 5.57: Going public and company's control

Predictor variable			Company's control			Total
			Not important	Average	Very important	
GOING PUBLIC DECISION	No interest	N	4	8	30	42
		%	9.5	19.0	71.4	25.0
	Moderate interest	N	4	11	72	87
		%	4.6	12.6	82.8	51.8
	Serious interest	N	8	7	24	39
		%	20.5	17.9	61.5	23.2
Total		N	16	26	126	168
		%	9.5	15.5	75.0	100

Source: Survey Data

Another explanatory variable question asked was: *If the company decides to go public, how would you evaluate going public costs and fees requirements?* Results are summarized in Table 5.58 below.

Table – 5.58: Going public decision and costs and fees requirements

Predictor variable			Costs and fees requirements				Total
			Not an obstacle	Moderate	Major obstacle	No opinion	
GOING PUBLIC DECISION	No interest	N	5	13	20	4	42
		%	11.9	31.0	47.6	9.5	25.0
	Moderate interest	N	13	51	21	2	87
		%	14.9	58.6	24.1	2.3	51.8
	Serious interest	N	13	17	7	2	39
		%	33.3	43.6	17.9	5.1	23.2
Total		N	31	81	48	8	168
		%	18.6	48.2	28.6	4.8	100

Source: Survey Data

Results indicate that, 48.2% consider costs and fees as just a *moderate obstacle* factor when making decision to go public; 28.6% considered it as a *major obstacle* and 18.5% as *not an obstacle* to company's going public decision. 4.8% of respondents had no opinion to the question. The results are consistence with Bancel and Mittoo (2007) findings that, CFOs are less concerned with the costs of going public since 42% (mean = 0.08) of CFOs agreed that the cost of IPO is not a real issue.

The last explanatory variable question asked was: *If the company decides to go public, how would you evaluate going public Company's ordinance compliance requirements?* Results are summarized in Table 5.59 below.

Table – 5.59: Going public decision and company's ordinance compliance requirements

Predictor variable			Company's Ordinance Compliance requirements				Total
			Not an obstacle	Moderate	Major obstacle	No opinion	
	No interest	N	12	21	6	3	42
GOING		%	28.6	50.0	14.3	7.1	25.0
PUBLIC	Moderate interest	N	31	51	5		87
DECISION		%	35.6	58.6	5.7		51.8
	Serious interest	N	14	19	1	5	39
		%	35.9	48.7	2.6	12.8	23.2
Total		N	57	91	12	8	168
		%	33.9	54.2	7.1	4.8	100

Source: Survey Data

Results indicate that, 54.2% rate company's ordinance compliance requirements as a *moderate obstacle* to the company's decision to go public; 33.9% consider it as *not an obstacle* only 7.1% consider it as a major obstacle while 4.8% had *no opinion*.

The last two questions focused on the control variables. The first question asked in the questionnaire was: *To what extent has lack of knowledge on going public process and benefits influenced the company's decision not to go public?* Results are summarized in table 5.60 below based on a 5-point scale ranked from 1 = *no influence* to 5 = *great influence*.

Table – 5.60: Going public decision and knowledge on going public

Predictor variable			Lack of knowledge on going public				Total
			No influence	Moderate	Great influence	No opinion	
	No interest	N	8	8	26		42
GOING		%	19.0	19.0	61.9		25.0
PUBLIC	Moderate interest	N	9	24	53	1	87
DECISION		%	10.3	27.6	60.9	1.1	51.8
	Serious interest	N	9	3	26	1	39
		%	23.1	7.7	66.7	2.6	23.2
Total		N	26	35	105	2	168
		%	15.5	20.8	62.5	1.2	100

Source: Survey Data

Results reveal that, 62.5% of respondents consider lack of knowledge on going public process and benefits as a *great influence* to a company's decision not to go public. 15.5% consider it as *no influence* and 20.8% as *moderate influence*.

The last control variable question asked in the questionnaire was: *To what extent do consequences of inherited philosophy of ujamaa in Tanzania has influenced the company's decision not to go public?* Responses are summarized in Table 5.61.

Table – 5.61: Going public decision and consequences of philosophy of ujamaa

Predictor variable			Consequences of ujamaa philosophy				Total
			No influence	Moderate	Great influence	No opinion	
GOING PUBLIC DECISION	No interest	N	21	7	8	6	42
		%	50.0	16.7	19.0	14.3	25.0
	Moderate interest	N	45	13	6	23	87
		%	51.7	14.9	6.9	26.4	51.8
	Serious interest	N	16	3	4	16	39
		%	41.0	7.7	10.3	41.0	23.2
Total		N	82	23	18	45	168
		%	48.8	13.7	10.7	26.8	100

Source: Survey Data

Results show that, out of 168 respondents, 48.8% evaluate inherited philosophy of ujamaa in Tanzania as having *no influence* to company's decision not to go public, 13.7% as having *moderate influence* and 10.7% as having *great influence*. These results are consistent with Ndunguru (2006) findings that, the idea of socialist ideals being anti-private business stereotype does not hold water because entrepreneurs do not perceive a central or local government machinery system and people, and society in general, to be obstacles to private business ownership. However, a notable part of the results is the high rate of respondents 26.8% with *no opinion* which could indicate that some of the respondent companies are new companies formed after liberalization of economic environment in Tanzania. When the question is analysed to incorporate company's ownership structures and control, results in Table 5.62 below reveal that, 46.7% of family owned companies and 50.5% of non-family owned companies indicate that it has *no influence*. However, 25.3% and 28% of family and non-family owned companies, respectively, had *no opinion*.

Table 5.62 Ownership structure and consequences of philosophy of ujamaa

Company's Legal Status		Consequence of philosophy of ujamaa				
		No influence	Moderate	Great influence	No opinion	Total
Private profit making-non family	N	47	9	11	26	93
	%	50.5	9.7	11.8	28.0	100
Private profit making-family	N	35	14	7	19	75
	%	46.7	18.7	9.3	25.3	100
Total	N	82	23	18	45	168
	%	48.8	13.7	10.7	26.8	100

Source: Survey Data

5.3.3 Regression Analysis

The previous sections presented and discussed correlations among different variables which formed the basis for testing the research hypotheses of the study. In this section, regression analyses are performed using the SPSS software. Regressions are carried out in six different separate equations for each of the three testable hypotheses, based on respondent's categories, which include: whole sample; regions; company's ownership structures and control; age; size; and, stage of development.

In chapter 3 (p.84 – 85) it was hypothesized in going public decisions that: going public rules and regulations are negatively associated with private sector company's decision to go public; going public costs are negatively associated with private sector company's decision to go public; and, going public company's ordinance compliance requirements are negatively associated with private sector company's decision to go public. Going public rules and regulations feature seven intermediating attributes which consist of: listing rules requirements; prospectus information disclosure requirements; portfolio diversification to allow risk sharing; company's reputation and credibility; company's external monitoring and corporate governance; company's confidentiality and company's control.

5.3.3.1 Rules and Regulations and Going Public Decision

Results presented in Table 5.63 below give a summary of regression results of going public decision variables which are relevant in testing the research hypotheses. The summary was extracted from Appendix B and results give total variation of explanatory and control variables after taking into account six categories of respondent companies.

Overall, the results indicate that some going public environment variables are significant predictors of private sector companies' participation in capital markets. This is evidenced by statistical significance tests (t) of predictor variables from the regression coefficients tables (tested at significance level of 5% to 10% – one-tailed tests).

Table 5.63 Regression analysis: Going public rules and regulations

Data category		Test	Explanatory Variables							Control Variables	
			LisRuRe	ProsDcs	PotDiv	RepCre	ExtCoGov	Confd	Contr	LckKno	PhyUjm
Regression equation – 1:		*β*	.067	.059	**.366**	-.051	**.146**	-.122	.028	**.210**	**.157**
Whole sample		Sig.	.418	.488	**.000**	.530	**.050**	.247	.781	**.007**	**.031**
	Arusha	*β*	.248	**.471**	**.478**	-.246	**.355**	-.318	.503	.111	**.309**
Regression	Region	Sig.	.052	**.025**	**.004**	.122	**.006**	.329	.191	.459	**.017**
equation – 2:	DSM	*β*	-.035	**-.379**	**.590**	-.189	-.015	**-.487**	.042	.182	.014
Regional data	Region	Sig.	.733	**.005**	**.000**	.069	.891	**.005**	.766	.118	.875
	K'njaro	*β*	.216	.179	.019	.277	.030	-.128	-.124	.315	.324
	Region	Sig.	.324	.356	.917	.146	.870	.541	.516	.083	.104
Regression	Non-	*β*	.056	.228	**.345**	.039	.147	-.077	.174	**.287**	.077
equation – 3:	Family	Sig.	.669	.079	**.008**	.756	.172	.678	.337	**.015**	.459
Ownership	Family	*β*	.037	-.147	**.403**	**-.266**	.078	**-.372**	-.095	.044	**.263**
structure	Owned	Sig.	.739	.201	**.002**	**.035**	.498	**.008**	.407	.699	**.014**
Regression		*β*	.079	-.066	.169	-.088	**.323**	**-.403**	.059	**.287**	.098
equation – 4:	Older	Sig.	.575	.615	.210	.510	**.011**	**.034**	.731	**.019**	.371
Age		*β*	.109	.081	**.493**	-.069	.164	-.044	.140	**.231**	.189
	New	Sig.	.325	.518	**.000**	.566	.120	.753	.348	**.042**	.057
Regression		*β*	.108	.173	**.402**	-.109	.159	-.037	.047	**.264**	.160
equation – 5:	Small	Sig.	.255	.092	**.000**	.259	.060	.762	.697	**.006**	.052
Size		*β*	.191	**-.542**	**.835**	**-.437**	**.371**	**-.383**	.200	.006	.045
	Large	Sig.	.303	**.002**	**.000**	**.035**	**.045**	**.028**	.239	.971	.777
Regression	Slow-	*β*	-.028	.179	.178	-.296	**.312**	.107	.081	.135	.180
equation – 6:	growth	Sig.	.837	.256	.225	.054	**.038**	.457	.581	.301	.160
Development	Fast-	*β*	.157	**.304**	**.542**	-.081	.163	-.077	.174	**.362**	.162
stage	growth	Sig.	.205	**.009**	**.000**	.452	.097	.659	.285	**.002**	.101

N = 168

LisRuRe = Listing rules requirements **ProsDsc** = Prospectus information disclosure requirement

PotDiv = Portfolio diversification to allow risk sharing **RepCre** = Company's reputation and credibility

ExtCoGov = External monitoring and corporate governance **Confd** = Company's confidentiality **Contr** = Company's control

LckKno = Lack of knowledge in going public process and benefits P**hyUjm** = Consequences of the inherited philosophy of Ujamaa

Source: Appendix – B1

To test the hypotheses developed in the conceptual framework of the study, regressions for predictor and criterion variables were carried out in six separate regression equations as displayed in Appendix–B. The six regression equations were classified based on the following company's categories: Equation-1 was for regression analysis for the whole data; equation-2 was for regression analysis based on each region of study; equation-3 was for regression analysis based on company's ownership structure and control; equation-4 was for regression analysis based on company's age; equation-5 was for regression analysis based on company's size; and, equation-6 was for regression analysis based on company's development stage. Company's ownership structure, age, size and stage of development are all related to other studies in going public decisions reviewed in

the theoretical and empirical literature in chapter 3 which revealed that, age, size and ownership structures are effective categorizations of firms when studying going public decisions (Beck et al., (2004); Machisio & Ravasi (2001); and, Pagano et al. (1998).

Table 5.63 above contains information required to measure goodness of fit of regression model in the population, how well the model fits data in order to test global significance of regression model, and, statistical significance test. Appendix B1 (Table $B_{1,1} - B_{1,6}$) contains explanatory and control variables, standardized beta coefficients with their respective significance levels. Regression analysis tables in Appendix-B display Variance Inflation Factors (VIF) to detect multicollinearity problems.

Conceptual MLRA model was used in the regression to determine the relationship:
Capital markets participation (Y) = α + β_1[Going public rules and regulations (GpRuRe)]$_i$ + β_2[Going public costs (GpCsts)] + β_3[Going public companies ordinance compliance requirement (GpCocRe)] + ε_i

Companies' decision to participate in Tanzanian capital markets was based on response to the question raised in the questionnaire: *"How seriously has your company considered going public?"* Answers to the question were ranked from 1 = *no interest* to 5 = *serious interest*. 168 respondents were accepted for the regression analysis. As mentioned in the previous sections, categorization of respondents was based on company's ownership structures and control, age, size and development stage. Company's categorization was considered to be more useful in this study because it enabled testing the already developed theories of going public decisions, which are well reviewed in chapter 3, and comparing results with the reviewed empirical studies conducted in other countries.

5.4 Testing of Hypotheses

Research hypotheses that were developed in the conceptual framework chapter were tested using results discussed in the preceding sections. The focus was to establish the magnitude and significance of regression coefficients (β_i) from predictor variables (going public rules and regulations, costs and company's ordinance compliance requirements)

5.4.1 Hypothesis 1

The null hypothesis to be tested here was: *'Going public rules and regulations are not associated with company's decision to go public'* or H_{01}: $\beta_1 = 0$ and the alternative hypothesis was: *'Going public rules and regulations are negatively associated with company's decision to go public'* or H_{a1}: $\beta_1 < 0$. The hypothesis was derived from theoretical and empirical literature reviewed in previous chapters. Theory assumes that, stringent regulations and disclosure rules and company's confidentiality syndrome will force companies from revealing information whose secrecy may be crucial for their competitive advantage.

To test hypothesis-1, regressions were carried out in six separate regression equations (whole sample, region of study, ownership structure and control, size, age and development stage) using seven explanatory variables and two control variables. Results are displayed in Appendix-B1 where each column shows explanatory and control variables, beta coefficients with their respective significance levels. Two predictor variables in Appendix-B1 (Table $B_{1.2}$) for Arusha region: Company's confidentiality and company's control are disqualified for further consideration because the Variance Inflation Factors (VIFs) are above the acceptable value of 10, indicating multicollinearity problem, whereas, the other remaining regression results are not a problem because VIF values are at lowest levels, with highest being 4.035, which is below the harmful collinearity among predictor variables.

5.4.1.1 Regression equation–1: Whole Sample

Hypothesis-1 in regression equation-1 where the whole sample was used without categorizing data as summarized in Table 5.63 above, is supported only by portfolio diversification to allow risk sharing. Results support the prediction that, private company owner's reason for wishing to go public is to spread their risks by selling part of private business and buying equity, which can then be used to acquire stakes in other companies. Regression analysis results indicate that portfolio diversification to allow risk sharing support theory because $\beta_{13} = .366$ and $t = 4.55$. Lack of knowledge on going public benefits is not supported by empirical results because it bears the wrong sign $(\beta_{18} = .210)$

but it is statistically significant *(t = 2.71)* which was not expected. Also, external monitoring and corporate governance was not supported by our empirical results because the coefficient takes a wrong sign *(β_{15} =.146)* but was statistically significant *(t = 1.98).* Consequences of ujamaa philosophy as control variable was not supported by our results because it had wrong sign *(β_{19} = .157)* but was statistically significant *(t = 2.18).*

In summary, results from Regression Equation-1 indicate that, portfolio diversification to allow risk sharing agrees with going public decision theory as reviewed in chapter 3. External monitoring and corporate governance took a wrong sign (+ve) and was statistically significant. This is contrary to the theory reviewed in chapter 3.

5.4.1.2 Regression Equation-2: Region of the Study

Regression equation-2 shown in Table 5.63 indicates support for hypothesis-1 for Arusha and Dar es Salaam regions by portfolio diversification to allow risk sharing while it is not significantly supported for by Kilimanjaro region. Regression analysis results indicate that portfolio diversification to allow risk sharing support theory because, for Arusha region β_{13} = *.478* and *t = 3.25* and for Dar es Salaam region β_{13} = *.590* and *t = 5.23.* For Dar es Salaam, support is given for prospectus information disclosure requirements and company's confidentiality. Regression analysis for Dar es Salaam results indicate that prospectus information disclosure requirements support theory because β_{12} = *-.379* and *t = -2.91* and company's confidentiality support theory because β_{16} = *-.487* and *t = -2.90.* Consequences of ujamaa philosophy as control variable for Arusha region was not supported by our results because it had wrong sign *(β_{19} = .309)* but was statistically significant *(t = 2.60).*

In summary, results from Regression Equation-2 indicate that, portfolio diversification to allow risk sharing for Arusha and Dar es Salaam regions and prospectus information disclosure requirements and company's confidentiality for Dar es Salaam region agree with going public decision theory as reviewed in chapter 3. However, consequences of ujamaa philosophy for Arusha region was statistically significant but took a wrong sign

(+ve) which is contrary to the theory reviewed in chapter 3. Data from Kilimanjaro did not support the going public decision theory.

5.4.1.3 Regression Equation–3: Company's Ownership Structure & Control

Regression equation-3 is categorized into two main parts, based on the ownership structures and control, as follows (Table 5.63): Private profit making companies owned by non-family members and private profit making family owned companies. Regression analysis results indicate that portfolio diversification to allow risk sharing support theory because, for non-family owned companies *(β_{13} = .345 and t = 2.71)* and for family owned companies *(β_{13} = .403 and t = 3.23.).* Also, support is given for family owned companies in reputation and credibility and company's confidentiality. Regression analysis for family owned companies results indicate that company's reputation and credibility support theory because β_{14} = -.266 and *t = -2.15* and company's confidentiality support theory because β_{16} = -.372 and *t = -2.73.* Consequences of ujamaa philosophy as control variable for Arusha region was not supported by our results because it had wrong sign *(β_{19} = .309)* but was statistically significant *(t = 2.60).* Lack of knowledge for non-family owned companies and consequences of ujamma philosophy for family owned companies does not support theory. Lack of knowledge was not supported by our results because it had wrong sign *(β_{18} = .287)* but was statistically significant *(t = 2.48)* while consequences of ujamaa philosophy was not supported by our results because it had wrong sign *(β_{19} = .263)* but was statistically significant *(t = 2.53).*

In summary, results from Regression Equation-3 indicate that, portfolio diversification to allow risk sharing for both no-family owned and family owned companies agrees with going public decision theory as reviewed in chapter 3. Also, company's confidentiality for family owned companies agree with going public decision theory while the –ve sign in company's reputation and credibility contradicts the theory. However, lack of knowledge for non-family owned companies and consequences of ujamaa philosophy for family owned companies were statistically significant but took a wrong sign (+ve) which is contrary to the theory reviewed in chapter 3.

5.4.1.4 Regression Equation-4: Company's Age

Company's age is categorized into two main classes as shown in Table 5.63: Older companies (with more than 10 years of existence from the time the study was conducted) and new companies (< 10 years of existence). Regression analysis for older companies results indicate that company's confidentiality support theory because $\beta_{16} = -.403$ and $t = -2.16$ and portfolio diversification to allow risk sharing support theory because $\beta_{13} = .493$ and $t = 4.26$. Lack of knowledge for older and new companies were not supported by our results because they had wrong signs $(\beta_{18} = .287; \beta_{18} = .231)$ but were statistically significant $(t = 2.41; t = 2.07)$ respectively.

In summary, results from Regression Equation-4 indicate that, company's confidentiality and portfolio diversification to allow risk sharing for older companies and new companies respectively agrees with going public decision theory as reviewed in chapter 3. However, company's external monitoring and corporate governance for older companies and lack of knowledge for both older and new companies were statistically significant but took a wrong sign (+ve) which is contrary to the theory reviewed in chapter 3.

5.4.1.5 Regression Equation-5: Company's Size

Regression analysis for company' size is split into two main categories based on the number of employees: Small size companies (1-50 full time employees) and large size companies (> 50 full time employees). For analysis purposes, medium size companies are included in the large companies. Regression analysis results indicate that portfolio diversification to allow risk sharing support theory because, for small companies $(\beta_{13} = .402 \text{ and } t = 4.17)$ and for large companies $(\beta_{13} = .835 \text{ and } t = 4.98.)$. Also, for large companies prospectus information disclosure requirements, company's reputation and credibility and company's confidentiality support our theory. Regression analysis for large companies results indicate that prospectus information disclosure requirements support theory because $\beta_{12} = -.542$ and $t = -3.48$ and company's confidentiality support theory because $\beta_{16} = -.383$ and $t = -2.32$. However, company's reputation and credibility does not support theory because the negative sign in $\beta_{14} = -.437$ and $t = -2.23$ is contrary

to the going public decision theory. Company's external monitoring and governance for large companies was not supported by our results because it had wrong sign *(β_{15} = .371) but was* statistically significant *(t = 2.11).* Also, lack of knowledge for small companies was not supported by our results because it had wrong sign *(β_{18} = .264)* but was statistically significant *(t = 2.83).*

In summary, results from Regression Equation-5 indicate that, portfolio diversification to allow risk sharing for both small and large companies agrees with going public decision theory as reviewed in chapter 3. Also, prospectus information disclosure requirements and company's confidentiality for large companies agree with going public decision theory. However, lack of knowledge for small companies and company's external monitoring and corporate governance for large companies had statistically significant coefficients but took a wrong sign (+ve) which is contrary to the theory reviewed in chapter 3.

5.4.1.6 Regression Equation-6: Company's Development Stage

Company's stage of development is categorized into six stages: Seed stage, start-up stage, slow-growth stage, fast-growth stage, maturity stage, and winding-down stage. Regression analysis results indicate that portfolio diversification to allow risk sharing for fast-growth stage companies support theory because β_{13} = .542 and *t = 5.00.* Company's external monitoring and corporate governance for slow-growth stage companies and prospectus information disclosure requirements for fast-growth companies were not supported by our results because they had wrong signs *(β_{15} = .309; β_{12} = .263)* but were statistically significant *(t = 2.60; t = 2.53)* respectively. Lack of knowledge for fast-growth stage companies was not supported by our results because it had wrong sign *(β_{18} = .362)* but was statistically significant *(t = 3.24).*

In summary, results from Regression Equation-6 indicate that, portfolio diversification to allow risk sharing for fast-growth stage companies agrees with going public decision theory as reviewed in chapter 3. However, company's external monitoring and corporate governance for slow-growth stage companies and prospectus information disclosure

requirements and lack of knowledge for fast-growth stage companies had statistically significant coefficients but took a wrong sign (+ve) which is contrary to the theory reviewed in chapter 3.

5.4.2 Hypothesis 2

The null hypothesis (H_{o2}) to be tested was that: *"Going public costs are not associated with company's decision to go public", or* H_{02}*:* $\beta_2 = 0$ and the alternative hypothesis was: *"Going public costs are negatively associated with company's decision to go public" or,* H_{a2}*:* $\beta_2 < 0$*.*

The alternative hypothesis was derived from the preposition that companies issuing small size IPOs will be deterred from going public since costs will weigh relatively more on their side. Going public does have costs which will vary with each issue. Main cost areas include: Broker/investment dealer fees charged based on percentage of stock price; professional fees charged depending on professionals retained; printing costs depending on size and quality of document required; listing fees based on a number of shares listed for trading (where applicable); on-going public costs including annual audit fees, increased payroll costs for financial, personnel, public relations, director liability insurance, and other costs unique to a public company. Multicollinearity was not a problem in the regression results because the Variance Inflation Factors (VIF) as shown in Appendix–B2 were at low levels with highest VIF of 1.436, which was well below the threshold value of 10 for harmful collinearity amongst predictor variables.

To test hypothesis–2, regressions were carried out using three predictor variables. Results are displayed in Appendix–B2 and summarized in Table 5.64 below.

Table 5.64 Regression analysis: Going public costs and fees.

Data category		Test	Explanatory Variables	Control Variables	
			Costs and Fees	Lack of Knowledge	Ujamaa Philosophy
Regression equation – 1:		*β*	**.184**	.081	.128
Whole sample		Sig.	**.020**	.301	.097
Regression equation – 3:	Non-	*β*	.054	.101	.029
	family	Sig.	.618	.356	.786
Ownership structure and	Family	*β*	**.304**	.085	**.271**
control		Sig.	**.009**	.449	**.015**
Regression equation – 5:		*β*	**.229**	.047	.143
	Small	Sig.	**.010**	.588	.100
Size		*β*	..035	.117	.095
	Large	Sig.	.843	.515	.583
N = 168					

Source: Appendix – B2

5.4.2.1 Regression Equation–1: Whole Sample

Hypothesis–2 was not supported by our results as shown in Table 5.64 above. Costs and fees requirement was not supported by our results because it had wrong sign *(β_{21} = .184)* but was statistically significant *(t = 2.34).*

In summary, results from Regression Equation-1 indicate that, theory is not supported by our empirical study.

5.4.2.2 Regression Equation–3: Ownership Structure & Control

Hypothesis-2 was not supported by our results. Costs and fees requirement and consequences of ujamaa philosophy were not supported by our results because they had wrong signs *(β_{23} = .304; β_{23} = .271)* but were statistically significant *(t = 2.69; t = 2.49)* respectively.

In summary, results from Regression Equation-3 indicate that, theory reviewed in chapter 3 is not supported by our empirical results.

5.4.2.3 Regression Equation-5: Company's Size

Hypothesis-2 was not supported by our results. Costs and fees requirement was not supported by our results because it had wrong sign *(β_{25} = .229)* but was statistically significant *(t = 2.61).*

In summary, results from Regression Equation-5 indicate that, theory reviewed in chapter 3 is not supported by our empirical results

5.4.3 Hypothesis 3

Null hypothesis (H_{o3}) to be tested was: *"Going public company ordinance compliance requirements are not associated with company's decision to go public"* or H_{o3}: $\beta_3 = 0$; and alternative hypothesis (H_{a3}) was: *"Going public company ordinance compliance requirements are negatively associated with company's decision to go public"* or H_{a3}: $\beta_3 < 0$.

Alternative hypothesis was formulated on the basis of preposition that more private companies will prefer to remain private if going public legal compliance requirements are too complicated, demanding and unfriendly to public companies. Multicollinearity was not a problem in the regression results because Variance Inflation Factors (VIFs) as shown in Appendix-B3 were at low levels with highest VIF being 1.154, which is well below the threshold value of 10 for harmful collinearity amongst predictor variables.

Results of regression tests are reported in Appendix-B3 and summarized in Table 5.65 on page 173. Out of six regression equations carried to test association between going public company ordinance compliance requirements and company's decision to go public, four indicated positive and statistically significant coefficients for hypothesis-3 as shown in Appendix-B3 and summarized in Table 5.65.

5.4.3.1 Regression equation–1: Whole Sample

Hypothesis-3 was not supported by our results. Company ordinance compliance requirements and consequences of ujamaa philosophy were not supported by our results because they had wrong signs *($\beta_{31} = .162$; $\beta_{31} = .152$)* but were statistically significant *($t = 2.12$; $t = 1.99$)* respectively.

In summary, results from Regression Equation-1 indicate that, theory reviewed in chapter 3 is not supported by our empirical results.

5.4.3.2 Regression equation-3: Ownership Structure & Control

Hypothesis-3 was not supported by our results. Company ordinance compliance requirements and consequences of ujamaa philosophy for family owned companies were not supported by our results because they had wrong signs *(β_{33} = .225; β_{33} = .336)* but was statistically significant *(t = 2.04; t = 3.07)* respectively.

In summary, results from Regression Equation-3 indicate that, theory reviewed in chapter 3 is not supported by our empirical results.

5.4.3.3 Regression equation-5: Company's Size

Hypothesis-3 was not supported by our results. Consequences of ujamaa philosophy for small companies was not supported by our results because it had wrong signs *(β_{35} = .172)* but was statistically significant *(t = 1.99).*

In summary, results from Regression Equation-5 indicate that, theory reviewed in chapter 3 is not supported by our empirical results.

5.4.3.4 Regression equation-6: Company's Stage of Development

Regressions for testing hypothesis-3 were carried out in six separate company's development stages (seed stage, start-up stage, slow-growth stage, fast-growth stage, maturity stage, and winding-down stage). Hypothesis-3 was supported by company ordinance compliance requirements for maturity stage companies. Regression analysis results indicate that company ordinance compliance requirements support theory because, *β_{36} = -.537 and t = -1.62* for maturity stage companies. Both, company ordinance compliance requirements and consequences of ujamaa philosophy for small-growth stage companies were not supported by our results because they had wrong signs *(β_{36} = .247; β_{36} = .287)* but were statistically significant *(t = 2.01; t = 2.32)* respectively.

In summary, results from Regression Equation-6 indicate that, company ordinance compliance requirements for maturity stage companies agrees with going public decision theory as reviewed in chapter 3. However, company ordinance compliance requirements

and consequences of ujamaa philosophy for slow-growth and fast-growth stages were statistically significant but took a wrong sign (+ve) which is contrary to the theory reviewed in chapter 3.

Table 5.65 Regression Analysis: Company's ordinance compliance requirements

Data category		Test	Explanatory Variables	Control Variables	
			Company's ordinance	Knowledge	Ujamaa
Regression equation–1:		*B*	**.162**	.057	**.152**
Whole sample		Sig.	**.036**	.462	**.048**
Regression equation–3:		*B*	.089	.100	.033
Ownership structure & control	Non-Family	Sig.	.405	.353	.754
		B	**.225**	.022	**.336**
	Family	Sig.	**.045**	.841	**.003**
Regression equation–5:		*B*	.166	.037	**.172**
Company's size	Small	Sig.	.063	.676	**.049**
		B	.127	.091	.101
	Large	Sig.	.460	.598	.556
Regression equation-6:		*B*	**.247**	.008	**.287**
Company's stage of development	Slow-growth	Sig.	**.049**	.950	**.024**
		B	.164	.053	.009
	Fast-growth	Sig.	.142	.638	.935
N = 168					

Source: Appendix - B3

5.5 Summary of Results

This chapter has empirically tested the hypothesized relationships among the constructs. Specifically, the chapter presents results of data analysis and research findings based on research objectives, questions and hypotheses of the study. Results of the descriptive analysis of the sample statistics addressing several key areas related to going public decisions are compiled, analyzed and presented. Regression analyses are carried out in six separate regression equations based on sample company categories for each of the three study hypotheses. Using confirmatory factor analysis, results indicate that, reliability and validity of going public decision constructs are acceptable for a scientific research.

Table 5.66 on page 169 summarizes empirical results indicating how the three hypotheses responded to the predictor variables. The overall analysis of the regression results reveals the following:

Hypothesis – 1:

Portfolio diversification to allow risk sharing received positive sign *(+ve)* and was statistically significant in the whole sample, Dar es Salaam region, non-family companies, family companies, older companies, new companies, small companies, large companies, slow-growth stage companies and fast-growth stage companies. This agrees with theory. Prospectus information disclosure requirements received negative sign *(-ve)* and was statistically significant in Dar es Salaam region and family owned companies. Company reputation and credibility received negative sign *(-ve)* and was statistically significant in Dar es Salaam region and family owned companies. Company's confidentiality received a negative sign *(-ve)* and was statistically significant in Dar es Salaam region, family owned companies and older companies.

Thus, a significant support of hypothesis – 1 originates from four predictor variables: company portfolio diversification to allow risk sharing, prospectus information disclosure requirements, company reputation and credibility and company confidentiality. The study results are a good indication that, what most private companies value in equity financing in emerging market economies and Tanzania in particular is the risk sharing. Company's confidentiality and prospectus information disclosure requirement received a negative sign *(-ve)* and was statistically significant in large companies.

Hypothesis -2:

Costs and fees received positive sign *(+ve)* and was statistically significant in the whole sample, Arusha and Kilimanjaro regions, family owned companies, company's age, small companies and slow-growth stage. This is contrary to reviewed theory.

Hypothesis - 3:

Company's ordinance compliance requirement received positive sign *(+ve)* and was statistically significant in the whole sample, Dar es Salaam region, family owned companies, company's age, small and large companies, slow-growth stage and fast-growth stage companies. This, again, does not agree with theory.

Contrary to our expectations based on the reviewed literature that company's control would have received support from regression equations in hypothesis-1, the empirical results indicate otherwise. The highest statistical significant test was $t = 1.355$ with coefficient $(\beta_{12} = .503)$ for Arusha region which could not support the theory. These results contradict the theory that going public creates separation between ownership and control which leads to agency problems (Ritter, 1987). In this study, it was anticipated that, based on desire to retain decision making control by management team or owner managers of private companies, our results would have significantly supported hypothesis-1.

What appear in all regression results is that, support comes from company's portfolio diversification to allow risk sharing, company's information disclosure and status syndrome. Thus, a significant support of hypothesis-1 originates from four predictor variables: company's portfolio diversification to allow risk sharing, prospectus information disclosure requirements, company's confidentiality and company's reputation and credibility. Results are consistent with those obtained by Bancel and Mittoo (2007) study which identified the following factors as significantly influencing the company's decision to go public or to remain private: Investor recognition; reputation and credibility; growth opportunities and cost of capital. Also, a significant support for hypothesis-3 originated from company ordinance compliance requirements for maturity stage companies.

This is a good indication that, what most private companies value in equity financing in emerging market economies and Tanzania in particular is the risk sharing, the extent to which they can prevent disclosure of sensitive information and maintain reputation and credibility of their companies and not how they can keep decision making and control of their companies.

These findings influence initial valuation of private companies, their long-term operating performance, and even the investment decisions of public investors. It shows that, when private benefits are high, controlling shareholders and managers of private companies are

less likely to choose going public because of higher standards for transparency associated with going public compliance and information disclosure requirements which may limit their ability to extract private benefits. Also, the results reveal that, risk sharing and reputation of the company are important variables for going public decisions.

5.66 Summary of the Empirical Study Results

Description of the alternative hypotheses	Regression tests		Hypothesis statistically supported		Regression test results: Statistically significant
	Eqs.	Data category	Supported		
			-vely	+vely	
H_{01}	1.	Whole sample	-	3,5	3,5
		Arusha region	-	2,3,5	1,4,6,7
	2.	DSM Region	-	2,3,5	1,2,3,5,7
		Kilimanjaro region	-	1,4	1,4
		Non-family companies	-	2,3,5	2,3,5
	3.	Family owned companies	-	3,6	3
		Older companies	6	3,5	3,5
	4.	New companies	-	3,5	3,5
		Small companies	-	1,2,3,5	1,2,3,5
	5.	Large companies	2,4,6	1,3,5,7	1,3,5,7
		Slow-growth stage	-	2,35	2,3,5
	6.	Fast-growth stage	-	1,2,3,5,7	1,2,3,5
H_{02}	1.	Whole sample	-	8	8
	2.	Regions (Arus & Kili)	-	8	8
		Non-family companies	-	-	-
	3.	Family owned companies	-	8	8
	4.	Company's age	-	8	8
		Small companies	-	8	8
	5.	Large companies	-	-	-
	6.	Slo-growth stage	-	8	8
H_{03}	1.	Whole sample	-	9	9
	2.	Region (DSM)	-	9	9
		Non-family companies	-	-	-
	3.	Family owned companies	-	9	9
	4.	Company's age	-	9	9
		Small companies	-	9	9
	5.	Large companies	-	9	9
		Slow-growth stage	-	9	9
	6.	Fast-growth stage	-	9	9

1 = Listing rules requirements	2 = Prospectus information disclosure requirement	3 = Portfolio diversification to allow risk sharing	4 = Company's reputation and credibility
5 = External monitoring and corporate governance	6 = Company's confidentiality	7 = Company's control	8 = Costs and fees requirements
9 = Company' ordinance compliance requirements	10 = Lack of knowledge in going public process and benefits	11 = Consequences of the inherited philosophy of ujamaa.	

Source: Appendix - B

CHAPTER SIX

CONCLUSION AND STUDY IMPLICATIONS

6.1 Introduction

This chapter presents a summary of findings and conclusions of the study, elaborates on theoretical and practical contribution and significance of the findings. It further identifies areas requiring interventions in form of research activities. To-date, capital markets in Tanzania are 16 years old; yet, participation of companies from the private sector as issuers of equity shares and corporate bonds to the public is still insignificant.

Different theoretical propositions raised by different groups of people trying to highlight factors behind low participation of private sector companies are summarized in this chapter. Some of the theoretical prepositions currently raised by the public include: Capital markets is a new concept to private sector companies' entrepreneurs in Tanzania after decades of subscription to the philosophy of ujamaa which was against private share ownership. Also, another factor considered to contribute to low participation is lack of knowledge and familiarity on rules, regulations, functions and benefits of capital markets by the public.

Other theoretical propositions raised by the public include: First, fear amongst private sector companies that costs involved in going public are very high and that only big profitable companies can manage. Second, fear amongst family owned companies that, going public will lead to loss of control of their business by family members. This is consistent with the reviewed literature; company control theory predicts that, companies owned by family members are likely to value control more than any other attributes in the going public decision. Third, the other theoretical proposition from the public is the desire among Tanzanian business entrepreneurs to remain private in order to avoid problems of transparency and demands of public disclosure. Fourth, in Tanzania, a large percentage of more established, successful family-owned businesses are owned by members of non-native population who resist the idea of their companies going public in

fear of losing economic dominance. Finally, the chapter highlights the contribution of the study in terms of capital markets development and private sector companies' participation in capital markets in Tanzania as an emerging market economy.

6.2 Summary of Thesis

The main focus of the study was to contribute to knowledge on factors influencing participation of private sector companies in using capital markets in emerging markets like Tanzania as issuers of equity shares and corporate bonds to finance their companies' long-term investment projects. The main objective as stated in chapter one, was to determine factors influencing participation of private sector companies in emerging capital markets of least developed countries. More specifically, it was intended to test quantitatively the association between going public rules and regulations, costs, and companies ordinance compliance requirements and private sector Company's decision to go public in Tanzania. Results and findings were expected to reveal the factors influencing participation of private sector companies in Tanzanian capital markets to finance long-term investment projects.

Chapter two provides brief background information on going public research environment in Tanzania. The information provided focuses more on the economic and financial sector reforms in sub-Sahara Africa and Tanzania in particular. Specifically, the chapter provides information on: Private sector business and financing environment in Tanzania; capital markets development environment in Tanzania; financial sector growth environment in Tanzania; and finally, capital markets legal and regulatory framework in Tanzania. The purpose of the background information was to reveal the economic and financial environment in which private sector companies and capital markets growth is subjected to, and particularly, the research environment. Healthy capital markets and prosperous private sector grow from real needs of the economy, especially the need for long-term financing, and they develop through serving domestic and foreign sectors of the economy. Capital markets and the private sector will thrive within an environment which ensures presence of economic and political stability, sound fiscal and monetary policies, appropriate legal and effective regulatory framework.

Chapter three reviews the theoretical and empirical studies which determine factors influencing private companies in going public decisions. Various theories are reviewed including capital raising, company control, growth motive, confidentiality, portfolio diversification and expanding shareholder base theories. Also included are, monitoring and corporate governance, windows of opportunity, cost of capital, company and investor recognition, and information asymmetry cost theories. Generally, theories of going public decision also address the question: At what stage in its life should a company go public rather than undertake its project using private financing? Essential links between private company going public decisions, capital markets participation and economic growth in Tanzania are also reviewed. Capital market is an integral component of financial markets that provide avenues for raising long-term financial resources and channel them to economic ventures, thus availing several economic benefits and potentials for economic development.

Review of theoretical and empirical literature in chapter three and the public debate on capital markets participation in Tanzania are the basis for developing a conceptual model of the study. The concept variables considered simultaneously in finding the association using Multiple Linear Regression Analysis model are: the extent to which going public environment as measured using three going public predictor variables (explanatory and control variables) is associated with Private Sector Company's going public decision in emerging market economies. Thus, the specific research questions were translated into testable hypotheses in order to verify and test if there is significant association between going public environment and private sector Company's decision to participate in emerging capital markets and, in particular, Tanzanian capital markets. In-depth review of theory and empirics suggests a general research hypothesis that: Private sector company's going public environment is negatively associated with capital markets participation in Tanzania. Moreover, the general conceptual hypothesis was transformed into testable statistical hypotheses as follows: Going public rules and regulations are NOT associated with company's decision to go public *($H_{0,1}$).*; Going public costs are NOT associated with company's decision to go public *($H_{0,2}$);* and, Going public

ordinance compliance requirements are NOT associated with company's decision to go public *($H_{0,3}$)*.

Chapter four discusses and elaborates on research methodology that includes detailed explanation of research design and area of research which covered sampling plan, operational design and data analysis design and quality control. Research design adopted was analytical survey design using a cross-sectional sample survey approach. The approach involved a number of private companies from private sector and entailed frequent consultations at various levels of its intensities. Since the study benefited from an extensive theoretical and empirical literature review from different experiences elsewhere, it enabled the researcher to develop a fairly comprehensive structured questionnaire. Target population consisted of registered private profit making companies from private sector. The population strictly targeted only private profit making companies from Arusha, Dar es Salaam, and Kilimanjaro regions which have the potential to meet initial going public requirements which include: Three years of existence; incorporated in Tanzania; having private share capital and solid management team; and, a three years history of strong financial performance.

Names of registered profit making private companies were drawn using random sampling approach from Central Register of Establishment (CRE) directory. The study population was divided into homogeneous sub-groups (strata) of 16 industry sectors based on ISIC classification. A total of 285 companies out 5,713, representing 5% of all private profit making business establishments in three regions from Tanzania mainland, were earmarked in the initial list of the sample size. The sample size was drawn from each stratum of the population using a stratified random sampling.

To control for variations in the sample and to make meaningful comparisons, the sample was randomly selected, basing on three criteria: first, companies registered as private limited companies by share capital and incorporated in Tanzania mainland only; second, companies engaging five persons or more at a single location; and third, companies which are three years old in order to ensure they had already developed governance

structures. The three criteria were considered to be critical in testing theories of going public decision. Stratified random sampling approach assured that different units in the population will have equal probabilities of being chosen and adequately represented in the sample. The study relied on primary data which were collected using administered structured questionnaires. Development of the questionnaires was guided by: theoretical propositions raised by public in the on-going debate; reviewed theories and empirics; research questions; and, the developed testable hypotheses.

Due to time constraint, high follow-up costs, and in some cases, lack of cooperation from some respondents in filling the questionnaire; and after checking reliability of information provided by respondents from the three regions, 168 (93%) out of 181 (who satisfied the three criteria) were accepted as statistically credible for further analysis. Data analysis was done using SPSS software and the relationship between going public environment and the decision for private sector companies to participate in Tanzanian capital markets as an emerging market economy was established using regression analysis coefficient factors of MLRA model using OLS, as an estimation technique.

6.3 Findings and Conclusion

Research methodology adopted aimed at attaining the following aspects. First, to analyze descriptive statistics of the sample characteristics focusing on respondent's categories: company's industrial sector, ownership structure and control, size, age and development stage. In addition, analysis was also performed for the whole sample size and at regional level. The objective was to determine from each category, factors influencing companies' decision to go public or to remain private. This was followed by descriptive statistics analysis for construct variables which contain theoretical concepts of going public decision.

The second aspect was to determine the extent to which going public decision environment as a predictor variable is associated with private sector companies' participation in capital markets. This section formed the basis for testing research hypotheses of the study. Results are presented based on three analytical considerations:

correlation tests as well as means and standard deviations amongst the study variables; testing correlation amongst predictor variables; and finally, between dependent and control variables.

Third, methodological aspects investigated the relative importance of each predictor variable on company's decision to go public. To test research hypotheses developed in the conceptual framework, regressions for the predictor and criterion variables were carried out in six separate regression equations based on company's categories. Specifically, the six regression equations comprised of: whole sample analysis, regional data analysis, ownership structure and control, size, age, and development stage. Summary of findings and highlights of major conclusions that focus on the relationship between going public decisions environment and private sector companies' participation in capital markets are presented below. Tests on the three hypotheses, indicate that results are mixed. First, in testing Hypothesis-1; the following are the results: The first null hypothesis *($H_{0,1}$)* which tested that going public rules and regulations are not associated with company's decision to go public was rejected in portfolio diversification to allow risk sharing for the whole sample and Dar es Salaam region, company's ownership structure and control, company's age, company's size and company's development stage. The six regression analysis equations performed based on the specified data categories revealed that, a significant support of hypothesis-1 originates from four predictor variables: company's portfolio diversification to allow risk sharing, prospectus information disclosure requirements, company's confidentiality and company's reputation and credibility. For hypothesis-3 support originated from company ordinance compliance requirements for maturity stage companies. These results support the going public theories reviewed in chapter 3.

Going public theory predicts that, companies remain private to preserve decision making control and ownership (Brau & Fawcet, 2006). Even the intra-industry comparison study which was conducted by Bhaird and Lucey (2006) reveals that those in manufacturing, distribution, retail, hotels and catering sectors are mostly concerned with retaining control of their businesses. Surprisingly, findings did not support hypothesis-1 in company's

ownership control and decision making as shown in Appendix – B. Even where coefficients took the correct signs they were not statistically significant to enable rejecting the Null hypothesis *($H_{0,1}$).* Although, transparency of trading and other procedures allow efficiency, confidence and fairness in capital markets business, we can conclude based on these findings that private companies in emerging market economies, and particularly in Tanzania, do resist going public not because of fear of loss of ownership and control of their companies, but because of fear of loss of confidentiality in their company's business operations and strategies. For example, a company might fear that it will be destroyed if it were to disclose its sensitive information about its profitability, technology, etc, to tax authorities or to its competitors. These results and findings are consistent with capital markets participation debate and the study tentative assumptions raised in chapter one that, based on the going public rules and regulations requirements, companies with sensitive information or companies operating in industries where the value of nondisclosure and confidentiality is greater, are less likely to go-public. The tentative assumption raised in chapter one was that, companies will prefer to remain private to avoid going public disclosure requirements.

Hypothesis-2 sought to test the extent to which going public costs are associated with company's decision to go public. Results from the six regression equations indicate that, theory reviewed in chapter three is not supported. The null hypothesis *($H_{0,2}$)* assumed that, going public costs are not associated with company's decision to go public.

Hypothesis-3 tested the proposition that going public company's ordinance compliance requirements are not associated with company's decision to go public. Results from all six regression equations received support on going public decision theory as reviewed in chapter 3 in maturity stage companies.

The study findings are not fully consistent with the reviewed studies that relate going public environment and company's decision to participate in capital markets. Moreover, the study findings support recent empirical evidence that led other researchers to conclude that, raising equity capital as reviewed in company's capital raising theory is

not the only purpose to go public (Bancel & Mittoo, 2007; Bharath & Dittmar, 2007; Brau & Fawcett, 2006; Campbell, 1979; Corwing & Harris, 1999; Kim & Weisbach, 2005; Marchisio & Ravasi, 2001; Mello & Parsons, 1998; Pagano et al. 1998; Ritter, 1984; Scott, 1976). The study conclusion is, therefore: *'Portfolio diversification to allow risk sharing, company's confidentiality and prospectors information disclosure requirements are the major reasons for private companies' decision to go public.'*.

6.4 Contribution of the Study in Going Public Decision Theory

This study builds on, and complements other studies on going public decision in emerging markets, particularly in sub-Saharan Africa. The theoretical significance of the findings of this study is in revealing factors influencing long-term financing of private sector companies. More specifically, findings of the study provide valuable information that contributes in filling the existing knowledge gap on factors influencing private sector companies' participation in emerging capital markets. In addition, since the study used survey data, it provides a valuable database for future studies on financing the private sector in emerging economies in general, and Tanzania in particular; hence, contributing to future theory building.

6.4.1 Practical Implications of the Study

Different experiences of emerging markets and developed economies reviewed in this study highlight fundamental components for a sustainable strategy to promote capital markets. They basically include- consistent macroeconomic programmes, sound financial system, legal framework and efficient and effective institutions to enforce regulations. Capital markets development requires addressing both supply and demand sides of the equations. It requires a degree of active cooperation among diverse parties that is unlikely without a strategic plan and strong leadership. Findings generally provide support that capital markets are a potential financing source to finance private sector companies in emerging economies and Tanzania in particular. The study has contributed in filling the gap of knowledge and, particularly, in resolving contradictions raised by public concerning the theoretical propositions on capital markets participations in Tanzania. In addition to the contribution of the study to going public decision theory, findings also

provide a useful contribution to policy makers, training and research institutions, and owner and/or managers of private sector companies. Moreover, study findings and implications address the research objectives raised in chapter one, as summarized in the proceeding sections.

6.4.1.1 Study Implications for Policy-Making

Effective operations of capital markets depend on a proper environment provided by good and sound macroeconomic policies of which fiscal policy is paramount. It is therefore recommended that policy-making be directed at fiscal policy interventions that foster and strengthen saving culture amongst investors, both in equity and debt instruments. Although listed equities in Tanzania are the least taxed assets of most of financial assets due to tax incentives they enjoy, yet, there is still need for designing and promoting a more progressive tax policy that will ensure effective functioning of capital markets for a sustainable financing of long-term development of private sector in Tanzania. In line with Byam et al. (2002), there is also an urgent need to simplify and ease entry conditions into capital markets without compromising investor protection in Tanzania.

Capital markets, therefore, cannot be expected to develop without credible legal and regulatory schemes that promote rather than inhibit private initiative where investors and savers build confidence in the functioning of the market. CMSA Business and Institutional Strengthening Plan for the period 2007/08 to 2011/12, spells out various ways of revitalizing capital markets in Tanzania. Its vision of capital markets of the future is one in which companies and others who wish to raise capital have a logical route for obtaining long-term financing. At the same time, investors can also feel that their investments are secure and adequately protected. CMSA as a regulatory authority is expected to work in close collaboration with other government agencies that may have an impact on the successful attainment of capital markets participation in Tanzania. Such agencies include BRELA, TRA, Trade licensing authority, municipalities, regional and district commissioners and the like. Policy implication of this observation is for the government to ensure that *all policies operating in Tanzania that might have direct*

impact on capital markets participation are harmonized. Also, primary market regulatory activities on new issues including disclosure, accounting and listing standards must be reviewed periodically to conform to changing international standards.

Another important lesson that can be drawn from the study findings is that, capital markets participation in Tanzania requires government to ensure that necessary framework conditions for private sector development are put in place. It would also be useful for the government to encourage large multinational companies already operating in Tanzania to consider mobilizing financing locally either through issuance of debt or equity in the local market. Their participation can help deepen domestic capital markets. Practical implication of this observation therefore recommends *the need to re-examine macroeconomic conditions with the purpose of creating fiscal stability and discipline to attain low inflation and competitive interest rates. These are key pillars that are critical for reducing investment costs and promoting business environment in order to build public confidence in capital market participation in emerging market economies like Tanzania.*

Enhancing market participation for issuers and investors, poses great challenge to policy makers. According to the study findings, key factors that are considered crucial include: Friendly regulatory regime; sound legal framework; macroeconomic stability; presence of potential market participants; vibrant and strong foundation of equity and corporate bond markets; and, a strong stock exchange base. In light of the findings and conclusions drawn from this study, measures and policy interventions that fall into two categories are recommended: *First, measures to increase supply and demand for equity and corporate bond security instruments are vital. Second, measures to strengthen regulatory operating capacity are required.*

Given that East African capital markets regional cooperation is already underway, consolidation of the markets is an important vehicle toward pooling resources and building capacity of the illiquid and thin markets. To promote harmonization of regional securities and exchanges, the tax treatment of investments must be tackled properly, since

tax policy is an important incentive or disincentive both for share issuers and investors. *Ultimately, the practical policy implication is to harmonize regulations, accounting, reporting and auditing systems to conform to international standards. Moreover, regional cooperation in capital market development will require for a regional approach for skills development, training programmes and research and information collaboration.*

6.4.1.2 Study Implication for Training & Research Institutions

Considering the descriptive statistics analysis for the construct variables, results indicate that majority of respondents are neither knowledgeable on the process, benefits and costs of going public nor are they knowledgeable about CMSA functions and company's ordinance compliance requirements. This may be taken as one of the major hindrances to private sector participation in capital markets. It can be concluded that education must take top priority in order to cultivate a professional awareness of capital markets benefits. Thus, introducing to various sectors of the market practitioners, well-structured capital markets training programmes into main stream of academic and professional programmes in our training institutions will have a much needed impact to public awareness. Practical implication of the study findings is that *CMSA in collaboration with DSE, BRELA, training institutions and donor partnerships should fund market development curricular to enhance public awareness.*

Global financial markets have become highly sophisticated in recent years, with the advancing information technology. They are increasingly characterized by advanced and exotic securities, demanding that market participants stay abreast of recent advanced technology. *The practical implication of this is for capital market participants to be at forefront in market development strategies. This can be done through adoption of well designed course programmes to be organized by CMSA as a regulatory authority in collaboration with training institutions.*

For researchers, empirical studies must be promoted in all aspects related to capital markets participation. The practical implication of this agenda is that *researchers from higher learning institutions must realize that in SSA countries and in particular*

Tanzania, this is one of the areas that has not yet been widely researched and therefore appropriate action is urgently needed to be taken. Through this agenda, researchers will be required to develop a comprehensive capital market database to foster practitioners, investment analysts and academic researchers, making it possible for Tanzania capital markets to be subject to best research practices.

Greater access to quality research on information useful for capital markets participation can be very expensive. There is need, therefore, to provide incentives for market research. *The practical implication is for CMSA to introduce research cost reimbursement packages to researchers who may wish to participate in providing research services to the market.*

6.4.1.3 Study Implication for Private Sector Companies

As reviewed in previous chapters, emerging market economies and Tanzania in particular, recognize the importance of private sector and have committed to crafting strategies to develop the private sector as an engine of economic growth. *Accordingly, the key task confronting policy makers in emerging market economies is the removal of most serious bottlenecks to private sector development and, particularly, to private sector companies in order to ensure the eventual emergence of more diversified economic base.* One of the key areas that requires attention is improving access to financial sources, especially from equity and corporate bond financing.

It is revealed from the literature review that, private sector companies are affected by two sets of factors: Those internal to companies and those external to them. Internal factors include: ownership structure and control; size; age; stage of development; and, nature of the industry sector. Whilst internal factors are important, financing of private sector companies for development needs a more conducive business environment and specific support measures which are external factors. Thus, external factors include: Macroeconomic environment; regulatory and policy framework; reliable sources of financing; and networking. Private sector companies will benefit from a stable

macroeconomic environment which includes tight inflation control, low budget deficits, reasonable interest rates, and competitive real exchange rates.

Generally, economic and political stability will provide companies with incentives to save and mechanisms to channel those savings into investments. *The practical implication here is; first, for private sector forum, in collaboration with policy makers, to create a conducive policy framework for private sector companies which will create a market-friendly regime that is opened up to new investment opportunities at reduced costs. The second practical implication is for private sector forum, in collaboration with capital markets regulatory machinery, to develop a home-grown capital markets participation policy system that can provide tangible benefits to going public private companies in emerging market economies and, in particular, Tanzania.* Implementation of the policy system will help going public companies to gain a competitive edge and facilitate further access to public capital. In this regard, private sector companies will be able to play a positive role in growth and development of emerging market economies for years to come.

In addition, the study findings reveal that, there are many significant consequences of going public that must be considered before making a decision to go public. Once the public is admitted to ownership, the company is obligated to provide timely and continuous reporting of company's information as required by company's ordinance compliance requirements and rules and regulations set by capital markets regulatory agencies. Company director's roles are broadened by their responsibility to the public as they have to act in the best interest of shareholders. Thus, managers of a company which has gone public must be aware of obligations and constraints of running the company and adopt a suitable management style. *The practical implication is that, private sector forum must tell private companies that, corporate business decisions can no longer be self-serving and managers must always be reminded of their fiduciary responsibilities if they like to benefit from going public.*

It is acknowledged in the reviewed literature that, financing constraints limit investment capacity of private sector companies, hence hampering their growth. In Tanzania, like most of other emerging market economies, the problem is not so much lack of finance but rather accessibility by private sector companies. Findings from the study reveal that, one of the impediments to going public decision is the limited knowledge or lack of awareness about accounting and disclosure requirements for a going public company. *The practical implication is that, it is important for capital markets regulatory authority and stock exchange to design a systematic programme to assist companies in meeting accounting and disclosure requirements.* This could be done through in-house or with technical assistance from experience of the advanced emerging markets with well-established capital markets. This will enable Tanzania private sector companies and other market participants avail themselves of best international practices in going public requirements.

While government needs to create enabling environment, private sector companies from emerging market economies should be prepared to take-up the challenge of enhancing investment and becoming more pro-active in economic development of their countries. The private sector should have the right sectoral focus and, at the same time, needs to bring in innovations in their business operations. To this end, the practical implication is for private sector companies to focus on three important areas: *Recruitment of appropriate professional human resources; implementing business growth strategies; and exploiting available financing opportunities. In other words, companies will have to develop talented manpower capable of managing risks in equity market sector through enhancement of risk control mechanisms as markets become more sophisticated. Also, adoption of appropriate accounting and auditing standards (at international standards level) which will enable the companies in the emerging market economies to build reliable accounting and auditing systems and ensuring proper analysis and comparisons of company's performance in the same sector is attained.*

6.5 Limitation of the Study

The results of the study should be interpreted with caution in view of possible study limitations. Generalizability of the findings is limited by the sample which was taken only from Tanzania, and from a set of privately owned profit making companies. Tanzania is in transition from a closed economy controlled by the government to an open market economy where private the sector is leading the economy. After decades of subscribing to the philosophy of ujamaa, which was against share ownership in public owned companies, capital market in an open market economy is considered to be a new concept to private sector entrepreneurs in Tanzania. It is, therefore, assumed that, the results and findings of this study may be limited in use to other emerging market economies with different historical, political, economic and financial background.

The fact that data are cross-sectional, collected at particular point in time, is capable of becoming a limitation in using the study findings. In future, it is recommended that a similar research using longitudinal approach, or a combination of the two approaches, is required to capture findings based on data observed from a longer time period. Also from a longitudinal approach research, it will be possible to incorporate private company's performance using variables such as annual operating costs, sales revenues and profitability which accommodate data from a longer time-period.

6.6 Direction for Future Research

In this section, we highlight possible areas of interest for future research themes and needs, specifically on capital markets participation in emerging market economies of LDCs and Tanzania in particular. From the reviewed literature on going public decisions which determine the willingness of companies to participate in capital markets, it is clear that emerging market economies and Tanzania in particular, are still under-researched. Therefore, the research agenda is large and includes, but is not limited to, going public rules and regulations, costs and fees requirements, and company's ordinance compliance requirements as they influence participation of issuers of shares and investors in capital market.

A cursory glance at the literature on going public decisions, which mostly has emanated from developed economies, suggests that, there is need to develop relevant data-base to enable future research enquiry on capital markets participation in emerging market economies. Accordingly at the onset, we cannot over-emphasize the fact that provision of data lies at the heart of meaningful empirical enquiry on capital markets participation. It means, therefore, that it is necessary to collect and develop meaningful data-base on capital markets participation. This will entail establishing the type of data and information required to conduct studies in a number of areas which directly or indirectly influence the quality of capital markets participation in emerging market economies in general, and Tanzania in particular.

Further research development will require accessing time-series private sector companies' data (where they exist). This will cut-across different private sector company categories i.e. company's industry sector, ownership structure and control, size, age, and development stage in order to analyse the relationship that exists between private companies and capital markets participation from different perspectives. However, key areas of research which require immediate attention include:

(a) Given that Tanzania is in the stage of transition to market economies, it will be useful to examine the impact of industry sector constraints in capital markets participation using a longitudinal survey approach.

(b) Political interference in enterprise decision-making in SSA countries. How detrimental are political interferences on performance of capital markets development in financing productive sectors of the economy?

(c) Another area in capital markets participation needing further exploration is venture capital and going public decision. Here, we could investigate the extent to which, at higher levels of trust, venture capital investors are associated with private companies' commitment to go public.

6.7 Concluding Remarks

This study focused on going public decision as a basis of explaining private sector companies' participation in emerging capital markets in general, and Tanzania in particular. Findings of the study support recent empirical evidence which led other researchers to conclude from going public decision theories that, raising equity capital is not the only purpose to go public (Bancel & Mittoo, 2007; Bharath & Dittmar, 2007; Brau & Fawcett, 2006; Campbell, 1979; Corwing & Harris, 1999; Kim & Weisbach, 2005; Marchisio & Ravasi, 2001; Mello & Parsons, 1998; Pagano et al. 1998; Ritter, 1984; Scott, 1976). The study findings reveal that, company's decision to go public is also explained by other going public decision theories, including portfolio diversification to allow risk sharing, external monitoring and corporate governance, company's confidentiality, information disclosure, reputation and credibility and ownership control theories, to mention but a few.

It is the expectation of the researcher that the findings of this study will provide a good data base which will enable future researchers to generate more fruitful research projects whose results will impact on future theory building and motivate private sector companies' participation in emerging capital markets and, in particular, the Tanzanian capital markets. Also, the researcher expects that, the findings of this study will provide empirical evidence which will address the different theoretical propositions currently raised by different groups of people from the public on the factors behind low participation of private sector companies in the Tanzanian capital markets.

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APPENDICES

APPENDIX – A1: International Industrial Classification (ISIC) Rev. 3

(a) Classification of Companies by Size Group

SIZE GROUP	NUMBER OF PERSONS
1	1 – 4
2	5 – 9
3	10 – 19
4	20 – 49
5	50 – 99
6	100 – 499
7	500^{+}

Source: (CRE Directory – June, 2007).

(b) Classification of Companies by Main Industry

- Agriculture, Hunting and Forestry,
- Fishing,
- Mining and Quarrying,
- Manufacturing,
- Electricity, Gas and Water Supply,
- Construction,
- Wholesale and Retail Trade,
- Hotels and Restaurants,
- Transport, Storage and Communications,
- Financial Intermediation,
- Real Estate, Renting and Business Activities,
- Public Administration and Defence and Social Security,
- Education,
- Health and Social Work,
- Other Community, Social and Personal Service Activities,
- Extra Territorial Organizations and Bodies.

Source: Central Register of Establishments (June, 2007)

APPENDIX – A2 Distribution of Private Profit Making Ltd Companies (PPMLC)

(a) Distribution of PPMLC by region in Tanzania mainland

REGION	TOTAL	%
Dodoma	281	2.0
Arusha	1,243	8.6
Kilimanjaro	1,503	10.5
Tanga	619	4.3
Morogoro	400	2.8
Pwani	142	1.0
Dar es Salaam	6,066	42.2
Lindi	101	0.7
Mtwara	374	2.6
Ruvuma	190	1.3
Iringa	296	2.1
Mbeya	676	4.7
Singida	301	2.1
Tabora	92	0.6
Rukwa	236	1.6
Kigoma	90	0.6
Shinyanga	302	2.1
Kagera	365	2.5
Mwanza	600	4.2
Mara	345	2.4
Manyara	159	1.1
Total	14,381	100

Source: (CRE Directory – June, 2007).

(b) List of PPMLC selected randomly to participate in the survey

(i) Dar es Salaam Region

S/N	MAIN INDUSTRY	ILALA		KINONDONI		TEMEKE		TOTAL
		TOTAL	S/PLE	TOTAL	S/PLE	TOTAL	S/PLE	
1.	Agriculture, Hunting and Forestry	01	00	00	00	01	00	02
2.	Fishing	00	00	00	00	00	00	00
3.	Mining and Quarrying	10	01	23	01	00	00	35
4.	Manufacturing	167	08	139	07	157	07	485
5.	Electricity, Gas and Water Supply	08	01	05	00	15	01	30
6.	Construction	142	07	95	05	34	02	285
7.	Wholesale and Retail Trade	880	44	157	08	124	06	1,219
8.	Hotels and Restaurants	79	04	43	02	02	00	130
9.	Transportation, Storage and Communications	310	16	56	03	97	05	487
10.	Financial Intermediation	62	03	16	01	08	01	91
11.	Real Estate, Renting & Business Activities	144	07	77	04	11	01	244
12.	Public Administration, Defense and Social Security	01	00	00	00	00	00	01
13.	Education	08	01	01	00	00	00	10
14.	Health and Social Work	06	00	04	00	00	00	10
15.	Other Community, Social & Personal Service Activities	37	02	25	01	00	00	65
16.	Extra Territorial Organizations and Bodies	00	00	00	00	00	00	00
	TOTAL	**1,855**	**94**	**641**	**32**	**449**	**23**	**3,094**

Source: (CRE Directory – June, 2007).

(ii) Arusha region

S/N	MAIN INDUSTRY	ARUSHA		ARUMERU		MONDULI		KARATU		N/NGORO	
		TOT	S/PLE	TOT	S/PLE	TOT	S/PLE	TOT	S/PLE	TOT	S/PLE
1.	Agriculture, Hunting and Forestry	11	01	30	02	01	00	19	01	00	00
2.	Fishing	00	00	00	00	00	00	00	00	00	00
3.	Mining and Quarrying	06	00	00	00	00	00	00	00	00	00
4.	Manufacturing	43	03	04	00	00	00	00	00	00	00
5.	Electricity, Gas and Water Supply	06	00	00	00	01	00	01	00	01	00
6.	Construction	14	01	02	00	00	00	01	00	00	00
7.	Wholesale and Retail Trade	80	04	03	00	00	00	00	00	00	00
8.	Hotels and Restaurants	23	01	08	01	00	00	04	00	00	00
9.	Transportation, Storage and Communications	88	04	14	01	00	00	00	00	00	00
10.	Financial Intermediation	05	00	00	00	00	00	00	00	00	00
11.	Real Estate, Renting and Business Activities	16	01	07	00	00	00	00	00	00	00
12.	Public Administration, Defense and Social Security	00	00	00	00	00	00	00	00	00	00
13.	Education	00	00	00	00	00	00	00	00	00	00
14.	Health and Social Work	00	00	00	00	00	00	00	00	00	00
15.	Other Community, Social and Personal Service Activities	00	00	00	00	00	00	00	00	00	00
16.	Extra Territorial Organizations and Bodies	00	00	00	00	00	00	00	00	00	00
	TOTAL	**292**	**15**	**68**	**04**	**02**	**00**	**29**	**01**	**01**	**00**

Source: (CRE Directory – June, 2007).

(iii) Kilimanjaro Region

S/N	MAIN INDUSTRY	MOSHI URBAN		MOSHI RURAL		SAME		MWANGA		HAI		ROMBO	
		TOT	S/PLE	TOT	S/PLE	TOT	S/PLE	TOT	S/PLE	TOT	S/PLE	TOT	S/PLE
1.	Agriculture, Hunting and Forestry	01	00	06	01	00	00	00	00	07	01	01	00
2.	Fishing	00	00	00	00	00	00	00	00	00	00	00	00
3.	Mining & Quarrying	02	00	00	00	01	00	00	00	00	00	00	00
4.	Manufacturing	38	02	02	00	02	00	01	00	05	00	03	00
5.	Electricity, Gas & Water Supply	00	00	00	00	00	00	00	00	00	00	00	00
6.	Construction	24	01	00	00	00	00	01	00	01	00	01	00
7.	Wholesale & Retail Trade	47	02	00	00	00	00	00	00	00	00	01	00
8.	Hotels & Restaurants	16	01	03	00	02	00	01	00	03	00	01	00
9.	Transport Storage & Com'cations	18	01	04	00	00	00	01	00	02	00	00	00
10.	Financial Intermediation	09	00	00	00	00	00	00	00	02	00	00	00
11.	Real Estate, Renting & Busi Activities	09	00	00	00	00	00	00	00	01	00	00	00
12.	Public Admin, Defense & Social Security	00	00	00	00	00	00	00	00	00	00	00	00
13.	Education	00	00	00	00	00	00	00	00	00	00	00	00
14.	Health & Social Work	00	00	00	00	00	00	00	00	00	00	00	00
15.	Community, Social & Personal Service	00	00	00	00	00	00	00	00	00	00	00	00
16.	Extra Territorial Organizations & Bodies	00	00	00	00	00	00	00	00	00	00	00	00
	TOTAL	**164**	**07**	**15**	**01**	**O5**	**00**	**04**	**00**	**21**	**01**	**07**	**00**

Source: (CRE Directory – June, 2007).

Key:

1. TOT = Total
2. S/PLE = Sample

APPENDIX – B1 Going public rules and regulations results

TABLE – $B_{1.1}$ Regression analysis – Whole sample

Predictor Variables	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	VIF
	B	Std. Error	Beta			
(Constant)	.253	.525		.483	.630	
Explanatory Variables:						
Listing rules requirements	6.964E-02	.086	.067	.813	.418	1.390
Prospectus information disclosure requirements	5.744E-02	.083	.059	.695	.488	1.439
Portfolio diversification to allow risk sharing	**.366**	**.080**	**.366**	**4.549****	**.000**	**1.303**
Company's reputation and credibility	-5.122E-02	.081	-.051	-.630	.530	1.337
Company's external monitoring & governance	**4.065E-02**	**.021**	**.146**	**1.979****	**.050**	**1.092**
Company's confidentiality	-.145	.125	-.122	-1.163	.247	2.208
Company's control	3.045E-02	.109	.028	.278	.781	2.087
Control Variables:						
Lack of knowledge	**.191**	**.070**	**.210**	**2.714****	**.007**	**1.211**
Consequences of Ujamaa philosophy	**8.503E-02**	**.039**	**.157**	**2.180****	**.031**	**1.046**

Model Measures	R	R – Squared	Adjusted R Squared	Std. Error of the Estimate	F	Sig.
	.476	.226	.172	.63363	4.147	.000

The critical t-values in a one-tailed test are 1.282 and 1.645 at 10% and 5% levels, respectively. N = 168
A * indicates significance at 10% level while a ** indicates significance at 5% level.

TABLE – $B_{1.2}$ Regression analysis – by Region of study

Region	Predictor Variables	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	VIF
		B	Std. Error	Beta			
Arusha	(Constant)	-2.350	1.230		-1.911**	.070	
	Explanatory Variables:						
	Listing rules requirements	.295	.143	.248	2.068**	.052	1.541
	Prospectus information disclosure requirements	**.512**	**.211**	**.471**	**2.422****	**.025**	**4.035**
	Portfolio diversification to allow risk sharing	**.563**	**.173**	**.478**	**3.246****	**.004**	**2.314**
	Company's reputation and credibility	-.274	.170	-.246	-1.614*	.122	2.475
	Company's external monitoring & governance	**4.916E-02**	**.016**	**.355**	**3.081****	**.006**	**1.419**
	Company's confidentiality	-.342	.342	-.318	-1.001	.329	**10.761**
	Company's control	.458	.338	.503	1.355*	.191	**14.745**
	Control Variables:						
	Lack of knowledge	.132	.174	.111	.755	.459	2.326
	Consequences of Ujamaa philosophy	**.189**	**.073**	**.309**	**2.603****	**.017**	**1.505**
DSM	(Constant)	3.896	.989		3.939**	.000	
	Explanatory Variables:						
	Listing rules requirements	-3.564E-02	.104	-.036	-.343	.733	1.429
	Prospectus information disclosure requirements	**-.400**	**.137**	**-.379**	**-2.908****	**.005**	**2.223**
	Portfolio diversification to allow risk sharing	**.563**	**.108**	**.590**	**5.229****	**.000**	**1.668**
	Company's reputation and credibility	-.200	.108	-.189	-1.844**	.069	1.382
	Company's external monitoring & governance	-1.457E-02	.106	-.015	-.137	.891	1.546
	Company's confidentiality	**-.816**	**.282**	**-.487**	**-2.898****	**.005**	**3.695**
	Company's control	5.783E-02	.194	.042	.299	.766	2.566
	Control Variables						
	Lack of knowledge	.167	.105	.182	1.579*	.118	1.743
	Consequences of Ujamaa philosophy	7.236E-03	.046	.014	.158	.875	1.030
Kilimanjaro	(Constant)	-.413	.975		-.424	.676	
	Explanatory Variables:						
	Listing rules requirements	.234	.233	.216	1.008	.324	2.089
	Prospectus information disclosure requirements	.151	.160	.179	.942	.356	1.644
	Portfolio diversification to allow risk sharing	1.974E-02	.187	.019	.105	.917	1.461
	Company's reputation and credibility	.284	.189	.277	1.501*	.146	1.544
	Company's external monitoring & governance	2.932E-02	.177	.030	.166	.870	1.518
	Company's confidentiality	-.132	.212	-.128	-.620	.541	1.925
	Company's control	-.127	.193	-.124	-.659	.516	1.604
	Control Variables:						
	Lack of knowledge	.258	.143	.315	1.808**	.083	1.373
	Consequences of Ujamaa philosophy	.190	.112	.324	1.692**	.104	1.668

	Region	R	R – Squared	Adjusted R Squared	Std. Error of the Estimate	F	Sig.
Model Measures	Arusha	.902	.813	.710	.41044	7.896	.000
	Dar es Salaam	.573	.328	.244	.55896	3.904	.000
	Kilimanjaro	.686	.471	.228	.69655	1.940	.085

The critical t-values in a one-tailed test are 1.282 and 1.645 at 10% and 5% levels, respectively. N = 168
A * indicates significance at 10% level while a ** indicates significance at 5% level.

TABLE – $B_{1.3}$ Regression analysis – Company's ownership structure & control

Ownership	Predictor Variables	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	VIF
		B	Std. Error	Beta			
Private Profit making- Non family	(Constant)	-.390	.721		-.541	.590	
	Explanatory Variables:						
	Listing rules requirements	6.052E-02	.141	.056	.430	.669	1.688
	Prospectus information disclosure requirements	.201	.113	.228	1.779**	.079	1.629
	Portfolio diversification to allow risk sharing	**.340**	**.125**	**.345**	**2.710****	**.008**	**1.608**
	Company's reputation and credibility	3.818E-02	.122	.039	.312	.756	1.525
	Company's external monitoring & governance	3.141E-02	.023	.147	1.377*	.172	1.140
	Company's confidentiality	-7.966E-02	.191	-.077	-.416	.678	3.410
	Company's control	.164	.170	.174	.966	.337	3.243
	Control Variables:						
	Lack of knowledge	**.244**	**.099**	**.287**	**2.475****	**.015**	**1.339**
	Consequences of Ujamaa philosophy	4.124E-02	.055	.077	.745	.459	1.074
Private family held	(Constant)	3.072	1.188		2.586**	.012	
	Explanatory Variables:						
	Listing rules requirements	3.421E-02	.102	.037	.334	.739	1.281
	Prospectus information disclosure requirements	-.160	.124	-.147	-1.292*	.201	1.338
	Portfolio diversification to allow risk sharing	**.398**	**.123**	**.403**	**3.230****	**.002**	**1.616**
	Company's reputation and credibility	**-.251**	**.116**	**-.266**	**-2.154****	**.035**	**1.576**
	Company's external monitoring & governance	7.531E-02	.111	.078	.681	.498	1.375
	Company's confidentiality	**-.617**	**.226**	**-.372**	**-2.731****	**.008**	**1.927**
	Company's control	-.136	.164	-.095	-.835	.407	1.337
	Control Variables:						
	Lack of knowledge	4.201E-02	.108	.044	.388	.699	1.357
	Consequences of Ujamaa philosophy	**.134**	**.053**	**.263**	**2.530****	**.014**	**1.116**

	Ownership	R	R – Squared	Adjusted R Squared	Std. Error of the Estimate	F	Sig.
Model Measures	Non family	.431	.186	.075	.67404	1.677	.093
	Family held	.626	.392	.286	.54312	3.699	.000

The critical t-values in a one-tailed test are 1.282 and 1.645 at 10% and 5% levels, respectively. N = 168
A * indicates significance at 10% level while a ** indicates significance at 5% level.

TABLE – $B_{1.4}$ Regression analysis – by Company's age

Age	Predictor Variables	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	VIF
		B	Std. Error	Beta			
Older Companies (1998 and below)	(Constant)	1.375	.706		1.948**	.056	
	Explanatory Variables:						
	Listing rules requirements	7.357E-02	.131	.079	.563	.575	1.851
	Prospectus information disclosure requirements	-5.506E-02	.109	-.066	-.505	.615	1.630
	Portfolio diversification to allow risk sharing	.167	.132	.169	1.267	.210	1.697
	Company's reputation and credibility	-8.339E-02	.126	-.088	-.662	.510	1.695
	Company's external monitoring & governance	**.285**	**.109**	**.323**	**2.613****	**.011**	**1.461**
	Company's confidentiality	**-.501**	**.231**	**-.403**	**-2.164****	**.034**	**3.302**
	Company's control	6.263E-02	.181	.059	.345	.731	2.813
	Control Variables:						
	Lack of knowledge	**.253**	**.105**	**.287**	**2.412****	**.019**	**1.354**
	Consequences of Ujamaa philosophy	5.365E-02	.060	.098	.900	.371	1.120
New Companies (1999 and above)	(Constant)	-1.046	.838		-1.249	.216	
	Explanatory Variables:						
	Listing rules requirements	.123	.124	.109	.990	.325	1.329
	Prospectus information disclosure requirements	9.531E-02	.147	.081	.650	.518	1.700
	Portfolio diversification to allow risk sharing	**.502**	**.118**	**.493**	**4.260****	**.000**	**1.460**
	Company's reputation and credibility	-7.183E-02	.124	-.069	-.577	.566	1.549
	Company's external monitoring & governance	3.499E-02	.022	.164	1.573*	.120	1.189
	Company's confidentiality	-5.114E-02	.162	-.044	-.316	.753	2.156
	Company's control	.152	.161	.140	.945	.348	2.393
	Control Variables:						
	Lack of knowledge	**.215**	**.104**	**.231**	**2.067****	**.042**	**1.366**
	Consequences of Ujamaa philosophy	.101	.052	.189	1.933**	.057	1.048

	Age	R	R – Squared	Adjusted R Squared	Std. Error of the Estimate	F	Sig.
Model Measures	Older Companies	.535	.287	.171	.61069	2.484	.011
	New Companies	.552	.304	.204	.64106	3.023	.002

The critical t-values in a one-tailed test are 1.282 and 1.645 at 10% and 5% levels, respectively. N = 168

A * indicates significance at 10% level while a ** indicates significance at 5% level.

TABLE – $B_{1.5}$ Regression analysis – by Company's size

Size	Predictor Variables	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	VIF
		B	Std. Error	Beta			
Small companies	(Constant)	-.547	.672		-.814	.417	
	Explanatory Variables:						
	Listing rules requirements	.115	.100	.108	1.144	.255	1.416
	Prospectus information disclosure requirements	.167	.099	.173	1.698**	.092	1.637
	Portfolio diversification to allow risk sharing	**.405**	**.097**	**.402**	**4.167****	**.000**	**1.470**
	Company's reputation and credibility	-.114	.101	-.109	-1.135	.259	1.459
	Company's external monitoring & governance	4.108E-02	.022	.159	1.901**	.060	1.111
	Company's confidentiality	-4.250E-02	.140	-.037	-.304	.762	2.372
	Company's control	4.947E-02	.127	.047	.390	.697	2.334
	Control Variables:						
	Lack of knowledge	**.260**	**.092**	**.264**	**2.828****	**.006**	**1.378**
	Consequences of Ujamaa philosophy	9.204E-02	.047	.160	1.963**	.052	1.045
Large companies	(Constant)	2.120	.976		2.171**	.039	
	Explanatory Variables:						
	Listing rules requirements	.177	.169	.191	1.051	.303	2.039
	Prospectus information disclosure requirements	**-.602**	**.173**	**-.542**	**-3.484****	**.002**	**1.491**
	Portfolio diversification to allow risk sharing	**.801**	**.161**	**.835**	**4.983****	**.000**	**1.730**
	Company's reputation and credibility	**-.386**	**.173**	**-.437**	**-2.228****	**.035**	**2.371**
	Company's external monitoring & governance	**.389**	**.184**	**.371**	**2.110****	**.045**	**1.900**
	Company's confidentiality	**-.724**	**.311**	**-.383**	**-2.323****	**.028**	**1.675**
	Company's control	.263	.218	.200	1.205	.239	1.696
	Control Variables:						
	Lack of knowledge	4.222E-03	.113	.006	.037	.971	1.541
	Consequences of Ujamaa philosophy	1.943E-02	.068	.045	.287	.777	1.493

	Company Size	R	R – Squared	Adjusted R Squared	Std. Error of the Estimate	F	Sig.
Model Measures	Small companies	.504	.254	.184	.65582	3.646	.000
	Large companies	.760	.578	.399	.45528	3.234	.007

The critical t-values in a one-tailed test are 1.282 and 1.645 at 10% and 5% levels respectively. N = 168
A * indicates significance at 10% level while a ** indicates significance at 5% level.

TABLE – $B_{1,6}$ Regression analysis – by Company's stage of development

Stage of Dev.	Predictor Variables	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	VIF
		B	Std. Error	Beta			
Slow-growth stage	(Constant)	-.886	1.323		-.670	.506	
	Explanatory Variables:						
	Listing rules requirements	-2.695E-02	.130	-.028	-.207	.837	1.364
	Prospectus information disclosure requirements	.203	.177	.179	1.148	.256	1.827
	Portfolio diversification to allow risk sharing	.181	.147	.178	1.228	.225	1.587
	Company's reputation and credibility	-.280	.142	-.296	-1.969**	.054	1.705
	Company's external monitoring & governance	**.289**	**.136**	**.312**	**2.131****	**.038**	**1.616**
	Company's confidentiality	.209	.279	.107	.749	.457	1.542
	Company's control	.114	.205	.081	.556	.581	1.615
	Control Variables:						
	Lack of knowledge	.154	.147	.135	1.046	.301	1.261
	Consequences of Ujamaa philosophy	9.716E-02	.068	.180	1.427*	.160	1.195
Fast-growth stage	(Constant)	-1.374	.743		-1.849**	.069	1.542
	Explanatory Variables:						
	Listing rules requirements	.168	.131	.157	1.280	.205	1.811
	Prospectus information disclosure requirements	**.318**	**.118**	**.304**	**2.686****	**.009**	**1.550**
	Portfolio diversification to allow risk sharing	**.567**	**.113**	**.542**	**5.000****	**.000**	**1.420**
	Company's reputation and credibility	-8.124E-02	.107	-.081	-.757	.452	1.392
	Company's external monitoring & governance	3.092E-02	.018	.163	1.683**	.097	1.138
	Company's confidentiality	-8.485E-02	.192	-.077	-.443	.659	3.622
	Company's control	.173	.161	.174	1.078	.285	3.136
	Control Variables:						
	Lack of knowledge	**.289**	**.089**	**.362**	**3.243****	**.002**	**1.504**
	Consequences of Ujamaa philosophy	7.796E-02	.047	.162	1.663**	.101	1.143

	Stage of Dev.	R	R – Squared	Adjusted R Squared	Std. Error of the Estimate	F	Sig.
Model Measures	Slow-growth	.569	.323	.178	.61288	2.217	.028
	Fast-growth	.630	.396	.305	.53987	4.357	.000

The critical t-values in a one-tailed test are 1.282 and 1.645 at 10% and 5% levels, respectively. N = 168
A * indicates significance at 10% level while a ** indicates significance at 5% level.

APPENDIX – B2 Going public costs and fees regression results

TABLE – $B_{2.1}$ Regression analysis – Whole sample

Predictor Variables	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	VIF
	B	Std. Error	Beta			
(Constant)	1.335	.266		5.026**	.000	
Explanatory Variables:						
Costs and fees requirements	**.157**	**.067**	**.184**	**2.341****	**.020**	**1.075**
Control Variables:						
Lack of knowledge	7.396E-02	.071	.081	1.038	.301	1.065
Consequences of Ujamaa philosophy	6.918E-02	.041	.128	1.669**	.097	1.015

Model Measures	R	R – Squared	Adjusted R Squared	Std. Error of the Estimate	F	Sig.
	.232	.054	.036	.68345	3.099	.028

The critical t-values in a one-tailed test are 1.282 and 1.645 at 10% and 5% levels, respectively. N = 168
A * indicates significance at 10% level while a ** indicates significance at 5% level.

TABLE – $B_{2.2}$ Regression analysis – by Region of study

Region	Predictor Variables	Unstand. Coefficients		Stand. Coefficients	t	Sig.	VIF
		B	Std. Error	Beta			
Arusha	(Constant)	1.279	.704		1.818**	.080	
	Explanatory Variables:						
	Costs and fees requirements	.311	.209	.261	1.487*	.148	1.063
	Control Variables:						
	Lack of knowledge	-.103	.202	-.087	-.511	.614	1.007
	Consequences of Ujamaa philosophy	.174	.108	.284	1.612*	.118	1.070
DSM	(Constant)	1.890	.385		4.907**	.000	
	Explanatory Variables:						
	Costs and fees requirements	6.476E-02	.098	.072	.661	.510	1.150
	Control Variables:						
	Lack of knowledge	-6.618E-03	.100	-.007	-.066	.947	1.147
	Consequences of Ujamaa philosophy	-1.029E-02	.053	-.020	-.195	.846	1.007
Kilimanjaro	(Constant)	.623	.494		1.262	.216	
	Explanatory Variables:						
	Costs and fees requirements	.178	.122	.235	1.463*	.153	1.064
	Control Variables:						
	Lack of knowledge	.204	.129	.249	1.579*	.124	1.023
	Consequences of Ujamaa philosophy	.187	.094	.319	1.989**	.055	1.058

	Region	R	R – Squared	Adjusted R Squared	Std. Error of the Estimate	F	Sig.
Model Measures	Arusha	.434	.189	.102	.72224	2.169	.114
	Dar es Salaam	.079	.006	-.025	.65077	.199	.897
	Kilimanjaro	.470	.221	.148	.73165	3.033	.043

The critical t-values in a one-tailed test are 1.282 and 1.645 at 10% and 5% levels, respectively. N = 168
A * indicates significance at 10% level while a ** indicates significance at 5% level.

TABLE– $B_{2.3}$ Regression analysis– by Company's ownership structure & control

Ownership	Predictor Variables	Unstandardized Coefficients		Stand. Coefficients	t	Sig.	VIF
		B	Std. Error	Beta			
Private Profit making-Non family	(Constant)	1.804	.357		5.060**	.000	
	Explanatory Variables:						
	Costs and fees requirements	4.565E-02	.091	.054	.500	.618	1.051
	Control Variables:						
	Lack of knowledge	8.547E-02	.092	.101	.927	.356	1.060
	Consequences of Ujamaa philosophy	1.542E-02	.057	.029	.272	.786	1.020
Private family held	(Constant)	.816	.371		2.201**	.031	
	Explanatory Variables:						
	Costs and fees requirements	**.248**	**.092**	**.304**	**2.693****	**.009**	**1.111**
	Control Variables:						
	Lack of knowledge	8.042E-02	.106	.085	.762	.449	1.086
	Consequences of Ujamaa philosophy	**.139**	**.056**	**.271**	**2.492****	**.015**	**1.030**

Model Measures	Ownership	R	R – Squared	Adjusted R Squared	Std. Error of the Estimate	F	Sig.
	Non family	.105	.011	-.022	.70854	.333	.801
	Family held	.431	.186	.151	.59227	5.399	.002

The critical t-values in a one-tailed test are 1.282 and 1.645 at 10% and 5% levels, respectively. N = 168
A * indicates significance at 10% level while a ** indicates significance at 5% level.

TABLE – $B_{2.4}$ Regression analysis – by Company's age

Age	Predictor Variables	Unstand. Coefficients		Stand. Coefficients	t	Sig.	VIF
		B	Std. Error	Beta			
Older Companies (1998 and below)	(Constant)	1.303	.371		3.509**	.001	
	Explanatory Variables:						
	Costs and fees requirements	.160	.098	.187	1.629*	.107	1.050
	Control Variables:						
	Lack of knowledge	.100	.101	.114	.991	.325	1.051
	Consequences of Ujamaa philosophy	3.840E-02	.062	.070	.619	.538	1.011
New Companies (1999 and above)	(Constant)	1.439	.397		3.623**	.000	
	Explanatory Variables:						
	Costs and fees requirements	.136	.098	.155	1.389*	.169	1.116
	Control Variables:						
	Lack of knowledge	4.040E-02	.103	.043	.392	.696	1.096
	Consequences of Ujamaa philosophy	9.331E-02	.057	.175	1.639*	.105	1.022

Model Measures	Age	R	R - Squared	Adjusted R Squared	Std. Error of the Estimate	F	Sig.
	Older Companies	.211	.045	.007	.66851	1.182	.322
	New Companies	.245	.060	.026	.70889	1.781	.157

The critical t-values in a one-tailed test are 1.282 and 1.645 at 10% and 5% levels, respectively. N = 168
A * indicates significance at 10% level while a ** indicates significance at 5% level.

TABLE – $B_{2.5}$ Regression analysis – by Company's size

Size	Predictor Variables	Unstand. Coefficients		Standardized Coefficients	t	Sig.	VIF
		B	Std. Error	Beta			
Small companies	(Constant)	1.320	.307		4.298**	.000	
	Explanatory Variables:						
	Costs and fees requirements	**.206**	**.079**	**.229**	**2.612****	**.010**	**1.055**
	Control Variables:						
	Lack of knowledge	4.677E-02	.086	.047	.544	.588	1.040
	Consequences of Ujamaa philosophy	8.226E-02	.050	.143	1.655**	.100	1.015
Large companies	(Constant)	1.567	.550		2.850**	.007	
	Explanatory Variables:						
	Costs and fees requirements	2.774E-02	.139	.035	.199	.843	1.082
	Control Variables:						
	Lack of knowledge	8.392E-02	.127	.117	.658	.515	1.098
	Consequences of Ujamaa philosophy	4.135E-02	.075	.095	.554	.583	1.019

Model Measures	Company Size	R	R – Squared	Adjusted R Squared	Std. Error of the Estimate	F	Sig.
	Small companies	.280	.079	.057	.70514	3.586	.016
	Large companies	.137	.019	-.068	.60687	.218	.883

The critical t-values in a one-tailed test are 1.282 and 1.645 at 10% and 5% levels, respectively. N = 168
A * indicates significance at 10% level while a ** indicates significance at 5% level.

TABLE – $B_{2.6}$ Regression analysis – by Company's stage of development

Stage of Dev.	Predictor Variables	Unstandardized Coefficients		Stand. Coefficients	t	Sig.	VIF
		B	Std. Error	Beta			
Start-up stage	(Constant)	-1.849E-02	1.111		-.017	.987	
	Explanatory Variables:						
	Costs and fees requirements	.135	.205	.204	.662	.529	1.384
	Control Variables:						
	Lack of knowledge	.642	.320	.629	2.003**	.085	1.436
	Consequences of Ujamaa philosophy	.183	.172	.300	1.061	.324	1.163
Slow-growth stage	(Constant)	1.190	.437		2.725**	.008	
	Explanatory Variables:						
	Costs and fees requirements	.194	.101	.236	1.913**	.061	1.019
	Control Variables:						
	Lack of knowledge	-3.853E-03	.140	-.003	-.027	.978	1.023
	Consequences of Ujamaa philosophy	.124	.067	.229	1.842**	.070	1.041
Fast-growth stage	(Constant)	1.727	.399		4.324**	.000	
	Explanatory Variables:						
	Costs and fees requirements	.107	.107	.120	1.004	.318	1.163
	Control Variables:						
	Lack of knowledge	5.971E-02	.096	.075	.622	.536	1.183
	Consequences of Ujamaa philosophy	3.689E-03	.054	.008	.069	.946	1.024
Maturity stage	(Constant)	1.000	2.156		.464	.723	
	Explanatory Variables:						
	Costs and fees requirements	.333	.426	.373	.783	.577	1.088
	Control Variables:						
	Lack of knowledge	-.333	.545	-.333	-.612	.651	1.426
	Consequences of Ujamaa philosophy	.333	.366	.486	.911	.530	1.365

Model Measures	Stage of Dev.	R	R – Squared	Adjusted R Squared	Std. Error of the Estimate	F	Sig.
	Start-up stage	.720	.519	.313	.57001	2.516	.142
	Slow-growth	.350	.122	.078	.64908	2.738	.051
	Fast-growth	.115	.013	-.023	.65528	.362	.781
	Maturity stage	.890	.792	.167	.81650	1.267	.560

The critical t-values in a one-tailed test are 1.282 and 1.645 at 10% and 5% levels, respectively. N = 168
A * indicates significance at 10% level while a ** indicates significance at 5% level.

APPENDIX - B3 Going public company's ordinance compliance regression results

TABLE – $B_{3.1}$ Regression analysis – Whole sample

Predictor Variables	Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.	VIF
(Constant)	1.287	.293		4.393**	.000	
Explanatory Variables:						
Company ordinance compliance requirements	**.165**	**.078**	**.162**	**2.116****	**.036**	**1.015**
Control Variables:						
Lack of knowledge	5.148E-02	.070	.057	.737	.462	1.018
Consequences of Ujamaa philosophy	**8.245E-02**	**.041**	**.152**	**1.992****	**.048**	**1.006**

Model Measures	R	R – Squared	Adjusted R Squared	Std. Error of the Estimate	F	Sig.
	.219	.048	.031	.68547	2.758	.044

The critical t-values in a one-tailed test are 1.282 and 1.645 at 10% and 5% levels, respectively. N = 168
A * indicates significance at 10% level while a ** indicates significance at 5% level.

TABLE – $B_{3.2}$ Regression analysis – by Region of study

Region	Predictor Variables	Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.	VIF
Arusha	(Constant)	1.279	.704		1.818**	.080	
	Explanatory Variables:						
	Company ordinance compliance requirements	.311	.209	.261	1.487*	.148	1.063
	Control Variables:						
	Lack of knowledge	-.103	.202	-.087	-.511	.614	1.007
	Consequences of Ujamaa philosophy	.174	.108	.284	1.612*	.118	1.070
DSM	(Constant)	1.890	.385		4.907**	.000	
	Explanatory Variables:						
	Company ordinance compliance requirements	6.476E-02	.098	.072	.661	.510	1.150
	Control Variables:						
	Lack of knowledge	-6.618E-03	.100	-.007	-.066	.947	1.147
	Consequences of Ujamaa philosophy	-1.029E-02	.053	-.020	-.195	.846	1.007
Kilimanjaro	(Constant)	.623	.494		1.262	.216	
	Explanatory Variables:						
	Company ordinance compliance requirements	.178	.122	.235	1.463*	.153	1.064
	Control Variables:						
	Lack of knowledge	.204	.129	.249	1.579*	.124	1.023
	Consequences of Ujamaa philosophy	.187	.094	.319	1.989**	.055	1.058

Model Measures	Region	R	R – Squared	Adjusted R Squared	Std. Error of the Estimate	F	Sig.
	Arusha	.434	.189	.102	.72224	2.169	.114
	Dar es Salaam	.079	.006	-.025	.65077	.199	.897
	Kilimanjaro	.470	.221	.148	.73165	3.033	.043

The critical t-values in a one-tailed test are 1.282 and 1.645 at 10% and 5% levels, respectively. N = 168
A * indicates significance at 10% level while a ** indicates significance at 5% level.

TABLE – $B_{3.3}$ Regression analysis– by Company's ownership structure & control

Ownership	Predictor Variables	Unstand. Coefficients		Stand. Coefficients	t	Sig.	VIF
		B	Std. Error	Beta			
Private Profit making- Non family	(Constant)	1.675	.399		4.202**	.000	
	Explanatory Variables:						
	Company ordinance compliance requirements	9.101E-02	.109	.089	.837	.405	1.013
	Control Variables:						
	Lack of knowledge	8.460E-02	.091	.100	.934	.353	1.029
	Consequences of Ujamaa philosophy	1.776E-02	.056	.033	.314	.754	1.017
Private family held	(Constant)	.886	.400		2.213**	.030	
	Explanatory Variables:						
	Company ordinance compliance requirements	**.210**	**.103**	**.225**	**2.045****	**.045**	**1.015**
	Control Variables:						
	Lack of knowledge	2.096E-02	.104	.022	.202	.841	1.010
	Consequences of Ujamaa philosophy	**.172**	**.056**	**.336**	**3.070****	**.003**	**1.006**

Model Measures	Ownership	R	R – Squared	Adjusted R Squared	Std. Error of the Estimate	F	Sig.
	Non family	.127	.016	-.017	.70676	.485	.694
	Family held	.391	.153	.117	.60423	4.259	.008

The critical t-values in a one-tailed test are 1.282 and 1.645 at 10% and 5% levels, respectively. N = 168
A * indicates significance at 10% level while a ** indicates significance at 5% level.

TABLE – $B_{3.4}$ Regression analysis – by Company's age

Age	Predictor Variables	Unstand. Coefficients		Stand. Coefficients	t	Sig.	VIF
		B	Std. Error	Beta			
Older Companies (1998 and below)	(Constant)	1.262	.393		3.211**	.002	
	Explanatory Variables:						
	Company ordinance compliance requirements	.166	.106	.178	1.569*	.121	1.027
	Control Variables:						
	Lack of knowledge	5.670E-02	.099	.064	.571	.570	1.011
	Consequences of Ujamaa philosophy	5.868E-02	.063	.107	.937	.352	1.028
New Companies (1999 and above)	(Constant)	1.354	.459		2.953**	.004	
	Explanatory Variables:						
	Company ordinance compliance requirements	.158	.122	.144	1.297*	.198	1.102
	Control Variables:						
	Lack of knowledge	3.832E-02	.103	.041	.371	.711	1.099
	Consequences of Ujamaa philosophy	9.920E-02	.057	.186	1.753**	.083	1.007

Model Measures	Age	R	R – Squared	Adjusted R Squareed	Std. Error of the Estimate	F	Sig.
	Older Companies	.205	.042	.004	.66934	1.117	.348
	New Companies	.239	.057	.023	.70991	1.695	.174

The critical t-values in a one-tailed test are 1.282 and 1.645 at 10% and 5% levels, respectively. N = 168
A * indicates significance at 10% level while a ** indicates significance at 5% level.

TABLE – $B_{3.5}$ Regression analysis – by Company's size

Size	Predictor Variables	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	VIF
		B	Std. Error	Beta			
Small companies	(Constant)	1.283	.370		3.469**	.001	
	Explanatory Variables:						
	Company ordinance compliance requirements	.176	.094	.166	1.874**	.063	1.044
	Control Variables:						
	Lack of knowledge	3.661E-02	.087	.037	.419	.676	1.044
	Consequences of Ujamaa philosophy	**9.938E-02**	**.050**	**.172**	**1.989****	**.049**	**1.001**
Large companies	(Constant)	1.420	.472		3.005**	.005	
	Explanatory Variables:						
	Company ordinance compliance requirements	.106	.141	.127	.747	.460	1.023
	Control Variables:						
	Lack of knowledge	6.528E-02	.123	.091	.532	.598	1.032
	Consequences of Ujamaa philosophy	4.403E-02	.074	.101	.594	.556	1.019

Model Measures	Company Size	R	R – Squared	Adjusted R Squared	Std. Error of the Estimate	F	Sig.
	Small companies	.235	.055	.033	.71409	2.451	.067
	Large companies	.183	.034	-.052	.60231	.394	.758

The critical t-values in a one-tailed test are 1.282 and 1.645 at 10% and 5% levels, respectively. N = 168
A * indicates significance at 10% level while a ** indicates significance at 5% level.

TABLE – $B_{3.6}$ Regression analysis – by Company's stage of development

Stage of Dev.	Predictor Variables	Unstand. Coefficients		Stand. Coefficients	t	Sig.	VIF
		B	Std. Error	Beta			
Start-up stage	(Constant)	-.290	1.021		-.284	.785	
	Explanatory Variables:						
	Company ordinance compliance requirements	.200	.179	.294	1.119	.300	1.111
	Control Variables:						
	Lack of knowledge	.620	.273	.608	2.274**	.057	1.154
	Consequences of Ujamaa philosophy	.230	.157	.377	1.468*	.186	1.067
Slow-growth stage	(Constant)	.872	.516		1.692**	.096	
	Explanatory Variables:						
	Company ordinance compliance requirements	**.251**	**.125**	**.247**	**2.010****	**.049**	**1.019**
	Control Variables:						
	Lack of knowledge	8.888E-03	.140	.008	.063	.950	1.028
	Consequences of Ujamaa philosophy	**.155**	**.067**	**.287**	**2.324****	**.024**	**1.033**
Fast-growth stage	(Constant)	1.563	.409		3.824**	.000	
	Explanatory Variables:						
	Company ordinance compliance requirements	.179	.121	.164	1.484*	.142	1.019
	Control Variables:						
	Lack of knowledge	4.225E-02	.089	.053	.472	.638	1.042
	Consequences of Ujamaa philosophy	4.361E-03	.053	.009	.082	.935	1.023
Maturity stage	(Constant)	3.944	1.792		2.202**	.271	
	Explanatory Variables:						
	Company ordinance compliance requirements	**-.537**	**.331**	**-.537**	**-1.621***	**.048**	**1.185**
	Control Variables:						
	Lack of knowledge	-.667	.385	-.667	-1.732**	.333	1.600
	Consequences of Ujamaa philosophy	.296	.246	.432	1.206	.441	1.385

	Stage of Dev.	R	R – Squared	Adjusted R Squared	Std. Error of the Estimate	F	Sig.
	Start-up stage	.753	.566	.380	.54116	3.047	.102
Model	Slow-growth	.357	.127	.083	.64712	2.874	.044
Measures	Fast-growth	.165	.027	-.009	.65057	.759	.520
	Maturity stage	.953	.907	.630	.54433	3.267	.381

The critical t-values in a one-tailed test are 1.282 and 1.645 at 10% and 5% levels, respectively. N = 168
A * indicates significance at 10% level while a ** indicates significance at 5% level.

APPENDIX – C

PRIVATE SECTOR COMPANIES SURVEY QUESTIONNAIRE

PRIVATE SECTOR COMPANIES SURVEY QUESTIONNAIRE

Instructions:

Your time is valuable, so we have made all feasible efforts to develop a questionnaire that is as short as possible.

All the information you will provide in the following questionnaire will remain strictly **CONFIDENTIAL**. Your company will not be identified as all questionnaires will be coded upon receipt so that no links are possible between the data and the identity of the company.

The questionnaire is divided into five sections:

- Section A: Company's General Information (containing 10 questions),
- Section B: Information about market regulators and government agency (containing 5 questions),
- Section C:

  Part – I: General financing information (containing 6 questions),

  Part – II: Information on going public decision (containing 8 questions).

It is important that you answer all questions pertaining to your company.

- Instructions are provided throughout the questionnaire,
- If you do not know the precise answer to some questions, please answer to the best of your knowledge. Approximations will be more useful to this study than no answer at all
- If you have any questions or concerns, please call the following mobile number: **0754 400711** or **0733 400711** or E-mail: ***gnangawe@yahoo.com***

THANK YOU FOR COMPLETING THIS QUESTIONNAIRE

SECTION – A
COMPANY'S GENERAL INFORMATION

Q1. (a) What is the current business legal status of your Company? *[Tick the applicable]*

- □ Private Profit Making Limited Company
- □ Private non-Profit Making
- □ Private Limited Company (Family–held)
- □ Private Company (Not Family-held)
- □ Don't Know.
- □ Other _____

(b) In which year was your Company founded?

Year	Don't Know

(c) How was your Company established? *[Tick the applicable]*.

- □ Private Profit Making Limited Company
- □ Private non-Profit Making
- □ Sole Proprietorship
- □ Privatization of State-owned firm
- □ Partnership
- □ Private Subsidiary of formerly state-owned firm
- □ Cooperative Firm
- □ Commercial Trust
- □ Charity Firm
- □ Other Private sector (specify) _____
- □ Joint Venture Firm (Local/Foreign Private Firm)
- □ Don't Know.

Q2. How would you best describe your Company's main area of activity? *[Tick one only]*

- □ Manufacturing
- □ Transportation, Storage & Communications
- □ Hotels & Restaurants
- □ Agriculture, Hunting and Forestry
- □ Mining & Quarrying
- □ Health & Social Work
- □ Construction
- □ Fishing
- □ Financial Intermediation
- □ Education
- □ Whole sale & Retail Trade
- □ Public Administration & Defence & Social Security
- □ Extra Territorial Organization and Bodies
- □ Real Estate, Renting & Business Activities
- □ Electricity, Gas & Water Supply
- □ Other (Specify) _____
- □ Other Community, Social & Personal Service Activities.

Q3. (a) How many Full-time employees and causal staff in total work for your Company? (Tick the applicable range):

Range	Full – Time	Causal
NONE		
1 – 4		
5 – 9		
10 - 19		
20 - 49		
50 - 99		
100 – 499		
500 or more		
Don't Know		

Q4. (a) Does any Foreign Company have a financial stake in your Company?

YES	NO	Don't Know

(b) What proportion of your Company's capital do they own?

%	Don't Know

(c) Does your Company have holdings or operations in other countries?

YES	NO	Don't Know

Q5. Which of the following best describes the control of your company? (Control means making day-to-day decisions concerning operational issues of your company). (Tick one only):

- □ Individual owner(s)
- □ Family member(s)
- □ Shareholder(s)
- □ Executive Committee
- □ CEO
- □ Financing Institution
- □ Board of Directors
- □ Management Team
- □ Workers Council
- □ Government Agency
- □ Venture Capital Firm
- □ Foreign Company
- □ Don't Know
- □ Do not Exist
- □ Other (Specify) _____

Q6. What is the highest decision making body in your company? (Decision making here refers to strategic and long-term decisions)

- □ Shareholders meeting (AGM)
- □ President/Chairman of the Company
- □ Major shareholders
- □ Board of Directors
- □ Professional Managers with no shares in the company
- □ Workers Council
- □ Do not Exist
- □ Don't Know
- □ Other (Specify) _____

Q7. Which of the following best describes the type of ownership with the largest stake in your Company, either directly or indirectly? (Tick only one for today and one for three years ago):

S/N	Ownership	3 Yrs Ago	Today
1.	Individuals & institutional investors		
2.	Family members		
3.	Local Venture Capital Firm		
4.	Foreign Venture Capital Firm		
5.	Financing Institution		
6.	Company's Managers		
7.	Company's Workers		
8.	Government Agency		
9.	Other (Specify) ……		
10.	Don't Know		

Q8. What stage of development would you say your business is in at the present time? (Tick one only)

- □ Seed stage (The business has no clients yet and its plan is still sketchy)
- □ Start-up stage (Business is starting commercialization)
- □ Slow-growth stage (Sales are slowly increasing)
- □ Fast-growth stage (The business is growing at a rate much faster than the economy)
- □ Maturity (Sales have stopped growing)
- □ Winding down stage (Sales have started to decrease)

Q9. Rate the complexity to the average investor from the public in understanding your business model and objectives. (Tick one only):

- □ Simple, any adult would understand it.
- □ Moderate, need general knowledge to understand it
- □ Hard, need specific knowledge of the industry to understand it
- □ Impossible, only a few experts would understand the complexity

Q10. From your point of view, how long do you estimate that it will take to explain to a potential investor why he/she should invest in your company? (Tick one only)

- □ Less than 5 minutes
- □ 5 – 10 minutes
- □ 11 – 15 minutes
- □ 16 – 30 minutes
- □ More than 30 minutes
- □ Don't Know

SECTION – B

REGULATORY AUTHORITY/GOVERNMENT AGENCIES

Q1. To what extent are you knowledgeable about the following capital markets concepts?

S/N	Problem	Not much ← ---------- → Very much					Don't Know
		1	2	3	4	5	
1.	Difference between Private and Public companies						
2.	Company's going public process						
3.	Initial Public Offering (IPO)						
4.	Public company (Listed with DSE)						
5.	Public company (Not listed with DSE)						
6.	Capital Markets & Securities Authorities						
7.	Rules & regulations of going public						
8.	Costs of going public						
9.	Companies Act 2002 (cap.212)						
10.	Equity Financing						
11.	Corporate Bond Financing						

Q2. Could you please rate the overall quality and efficiency of services delivered by the following four Government Agencies in promoting Private Sector Growth?

S/N	Agency	Very Bad ← ---------- → Very Good					No Opinion
		1	2	3	4	5	
1.	CMSA[1]						
2.	BRELA[2]						
3.	TRA[3]						
4.	Municipal/Town Councils						

Q3. Can you please tell how problematic are the following for the operation and growth of your business?

S/N	Problem area	No obstacle← ---------- →Major obstacle					No Opinion
		1	2	3	4	5	
1.	To obtain laws and regulations affecting my company.						
2.	Interpretation of laws and regulations						
3.	Business licensing process						
4.	Tax compliance requirements						

Q4. How often do the CMSA regulations and rules intervene in the following types of decisions making in your company?

S/N	Decision problem	No obstacle ← ---------- → Major obstacle					No Opinion	Not applicable
		1	2	3	4	5		
1.	Investments decisions							
2.	Financing decisions							
3.	Employment decisions							
4.	Dividends decisions							
5.	Acquisitions decisions							

Q5. Can you please tell how helpful do you find services of the Four Government Agencies towards business like yours

S/N	Agency	Very unhelpful ← ---------- → Very Helpful										No Opinion
		1		2		3		4		5		
		X	Y	X	Y	X	Y	X	Y	X	Y	
1.	CMSA											
2.	BRELA											
3.	TRA											
4.	Municipal/Town Councils											

KEY: ***X*** *= Now;* ***Y*** *= 3-5 Yrs Ago.*

SECTION - C

PRIVATE COMPANY'S FINANCING INFORMATION

PART – I General Financing Information

Q1. To what extent are you knowledgeable about the following financing concepts?

S/N	Concept	Not much ← ---------- → Very much					Don't Know
		1	2	3	4	5	
1.	Retained earnings						
2.	Disinvestment						
3.	Venture Capital						
4.	Bank loans						
5.	Financing leasing						
6.	Operating leasing						
7.	Government Credit Guarantee Schemes						
8.	Corporate bonds						
9.	Private equity						
10.	Public equity						

Q2. Assessment of the use of Financial instruments in your company

(a) Operational financing:

Assess the importance and frequency in using the following financial instruments as ***Working capital financing*** of your company. (Tick the most appropriate option on both scales)

Instruments	IMPORTANCE					USE				
	Low← ---------- → *High*					*Rare* ←----------→ *Frequent*				
	1	2	3	4	5	1	2	3	4	5
Owner's personal savings										
Retained earnings										
Venture capital financing										
Bank loans										
Asset & operative leasing										
Family and/or Friends										
Charity										
Government Credit Guarantee Schemes										
Other (specify) _____										
Don't Know										

(b) Investment financing:

(i) Assess the importance and frequency in using the following financial instruments as ***Investment financing*** of your company. (Tick the most appropriate option on both scales)

Instruments	IMPORTANCE					USE				
	Low ← ---------- → High					*Rare← ---------- → Frequent*				
	1	**2**	**3**	**4**	**5**	**1**	**2**	**3**	**4**	**5**
Owner's personal savings										
Retained earnings										
Disinvestments										
Venture capital financing										
Long-term bank loans										
Asset leasing										
Family and/or Friends										
Charity financial support										
Government subsidy										
Other (specify) _____										
Don't Know										

(ii) What proportion of your company's fixed investment has been financed from each of the following sources, over the past 3 years? (Provide a percentage portion for each of the applicable).

S/N	SOURCE	%
1.	Owner's additional financing	
2.	Retained earnings	
3.	Long-term debts	
4.	Disinvestment	
5.	Venture Capital financing	
6.	Family and/or Friends	
7.	Asset Leasing arrangement	
8.	Charity financing support	
9.	Government subsidy	
10.	Other (Specify) …….	
	Total	**100**

Q3. Has the financing of your company's fixed investments changed over the past 3-5years?

YES	NO	Don't know

Q4. How problematic are the following financing issues for the operations and growth of your business?

S/N	Problem	No obstacle ← ---------- → Major obstacle					No Opinion
		1	**2**	**3**	**4**	**5**	
1.	Collateral requirements						
2.	Interest rates						
3.	Bank paperwork						
4.	Corruption						
5.	Access to Bank financing						
6.	Access to Non-Bank equity						
7.	Access to Venture Capital						
8.	Other (specify) ……..						

Q5. How problematic are these different factors for the operations and growth of your business?

S/N	Problem	No obstacle ← ---------- → Major obstacle					No Opinion
		1	2	3	4	5	
1.	Financing sources						
2.	Tax compliance requirements						
3.	Inflation						
4.	Corruption						
5.	Exchange rate						
6.	Communication facilities						
7.	Infrastructure						
8.	Other (specify) ……..						

Q6. Tick the applicable items

S/N	DETAILS	YES	NO	Don't Know
(a).	Does your company use International Accounting Standards?			
(b).	Does your company circulate:			
	(i) Internally; annual financial statements that have been reviewed by external Auditors?			
	(ii) Externally; annual financial statements that have been reviewed by external Auditors?			

PART – II: Going Public Decision

Q1. (a) In order to obtain capital to expand/grow or refinance your business, would you consider sharing the ownership of your company with outside investors? (Tick one only)

YES, but with Venture Capital Firm	☐	YES, I am willing to share more than 50%	☐
YES, but I would rather keep more than 50%	☐	NO	☐

(b) How seriously has your company considered going public/IPO? (Tick one only)

No interest		**Moderate interest**	**Serious interest**	
1	2	3	4	5

(c) If you make a decision to go public and conduct an IPO; which amongst the following securities/ instruments would your company give more preference to offer to the public?

Corporate Bonds	**Equity shares**	**Other** *(specify)*	**No Opinion**

Q2. How important are the following ***Capital Markets Motivation*** for your company's decision to Go-Public/conducting an IPO?

Motivation	**Not important ←----------→ Very important**				
	1	**2**	**3**	**4**	**5**
1 Portfolio Diversification:					
Liquidity & easy transferability of equity and bonds					
To allow risk sharing & diversify personal holdings					
Expanding shareholders' base					
Debt is becoming too expensive					
Our company has run out of private equity					
To allow Venture capitalists to cash-out					
2 Confidentiality:					
Unveiling information whose secrecy may be crucial					
Proprietary information					
Revealing company's profitability					
Revealing company's strength & weaknesses					
Shareholders & Management compensation benefits					
Tax incentives					
3 Control:					
Shareholders voting rights					
Board of director's period in office					
Shareholder's private compensation benefits					
Director's private compensation benefits					
Manager's private compensation benefits					
4 Reputation & Credibility:					
To enhance the reputation of our company					
To enhance product/services reputation to customers					
Enhance reliability of our services to the public					
Strengthen company's growth rate					

Cont.

5 Windows of opportunity:					
Industry market-to-book ratio					
To raise cheap capital to finance future investments					
Industry valuation of future growth opportunities					
Future management succession passage					
6 External monitoring & Corporate governance:					
The size of the Board of directors					
Proportion of insider vs. outsider board of directors					
Independent Audit & Compensation committees					
Strengthening managerial discipline devices & style					
Shareholders-Director's communication					
Corporate executives & Senior manager's accountability					

Q3. If you decide to go public, how would your company evaluate the following going public requirements?

(a)

SN	Basic Listing Rules	No obstacle ←---------- → Major obstacle					Don't Know
		1	2	3	4	5	
1.	Company status: Required to be incorporated as a public company						
2.	A track record of at least 3 years of existence						
3.	Profitability track record and dividend payments in at least two of the last three financial years						
4.	Issued and paid-up capital of at least*:						
	(i) TZS 500 million for MIMS						
	(ii) TZS 200 million for EGMS						
5.	Net tangible assets of at least TZS 500 million						
6.	Minimum number of shareholders upon listing:						
	(i) Not less than 1000 shareholders for MIMS						
	(ii) At least 100 shareholders for EGMS						
7.	Directors and management relevant experience prior to listing:						
	(i) 5 Years for MIMS						
	(ii) 1 Year for EGMS.						
8.	Composition of Board of Directors (At least one third of the Board members must be Non-Executive Directors)						
9.	Company going public must disclose clear dividend policy.						

Key: * The capital markets are divided into two segments, which slightly differ in entry requirements as follows:

MIMS = Main Investment Market Segment;

EGMS = Enterprise Growth Market Segment.

(b) The legal framework governing the entry into business, conduct and operations of capital markets in Tanzania:

(i)

SN	Companies Act 2002 (cap.212) Requirements	No obstacle ←---------- → Major obstacle					Don't Know
		1	2	3	4	5	
1.	Law regulating the formation of public companies						
2.	Legal personality						
3.	Rights of shareholders						
4.	Obligations and powers of directors						
5.	Governance requirements						
6.	Power of making decisions by shareholders						
7.	Compliance with licensing laws						
8.	Appointment of qualified Auditors/Accountants registered with NBAA.						

(ii)

SN	CMSA Regulations & Rules	No obstacle ←---------- → Major obstacle					Don't Know
		1	2	3	4	5	
1.	Disclosure requirements that a going public company is obliged to comply with.						
2.	Documents required before going public i.e. Prospectus.						
3.	Conduct of business regulations in: confidentiality; inducements; and customer right.						
4.	Accounting and financial requirements						
5.	Corporate Governance guidelines with international trends.						
6.	Foreign companies public offers eligibility and Cross listing requirements						

(c)

SN	Going Public Costs & Fees	No obstacle ←---------- → Major obstacle					Don't Know
		1	2	3	4	5	
1.	Admission fees						
2.	Prospectus evaluation fees						
3.	Investment advisers fees						
4.	Fees charged on market value of the sold shares						

(d)

SN	Information disclosure through Prospectus	No obstacle ←---------- → Major obstacle					Don't Know
		1	2	3	4	5	
1.	Disclosure of price sensitive information						
2.	Information & qualifications of Directors, Professional advisers and agents and management.						
3.	Detailed description of company's business						
4.	Detailed information on the properties owned by the company going public i.e. real estate						
5.	Information about the subsidiaries and other investments owned by the company going public						
6.	Detailed financial information.						

(e)

SN	Going Public Process	No obstacle ←------- → Major obstacle					Don't Know
		1	2	3	4	5	
1.	Presentation to the company's Board of Directors: A completed Business Plan and Financial projections proposing the interest to go public						
2.	Board of Directors' approval and subsequently secure shareholders' approval						
3.	Appointment of the Team of advisors:						
	(i) Lead Financial advisor						
	(ii) Transaction Lawyers						
	(iii) Registered Auditors/Accountants						
	(iv) Lead Sponsoring Brokers/Underwriters						
	(v) Public Relations Firms						
	(vi) An experienced Printer						

Q5. To what extent have the following influenced your company's decision **NOT** to go public or conduct an IPO?

Factors	No influence ←----------→ Great influence					Don't Know
	1	2	3	4	5	
Lack of knowledge on Going public benefits						
The desire to retain decision-making control						
Preference for Venture capitalists						
Industry sector risk category						
Disclosure of strategic information to competitors						
The consequences of the philosophy of Ujamaa						
The required audited Financial statements						
Already have enough capital						
The size of the company						
Company's profitability						
Company's age						

THANK YOU FOR YOUR CO-OPERATION

Please use this space to add any comments on access to financing issues or for any comments concerning this survey.

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