

The Decision to Go Public from an Emerging Market: The Ghanaian Case

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Abstract

This paper examines the decision to go public on the Ghana Stock Exchange using data on both private and public firms. Analysis of the determinants of going public decision reveals that firms size, cost of debt, leverage and investment opportunities are the likely determinants of initial public offerings (IPO) in Ghana. In terms of post IPO performance, we find that the sample firms recorded a decrease in the level of investment opportunities, leverage as well as a reduction in cost of debt. This suggests that firms in Ghana go public to reduce their level of debt and not to fund investment opportunities.

Key words: IPO, stock market, the going public decision, Ghana.

1. Introduction

Private sector growth in Ghana has been constrained by limited financing opportunities for private investment. Two decades after the financial sector reforms in 1988, much work remains to be done in the financial sector of the economy. The financial system in Ghana had been characterised by the poor development of the capital and money markets, hence the domination by banks. Aryeetey (2001) argues that the creation and development of active money and capital markets could considerably broaden the opportunities for diversification for both savers and investors and provide an avenue for active liquidity management by financial institutions and monetary controls by the central bank.

The going public decision is one of the most complex and important decisions in a firm's life as the firm matures from one stage to another. An Initial Public Offering (IPO) of equity is the first public offering of equity and typically the first offering of any security undertaken by a firm. IPO is defined as shares issued by a formerly private company that has decided to issue shares to the public for the first time. It does not only satisfy the immediate capital requirement of the firm but also paves a way for the firm to make subsequent public offering of equity and other corporate securities. Thus, going public allows the firm access to the public capital market for the first time in its life and hence may have important implication for a firm's product market performance as well.

The stock market is an important part of the economy of a country. It plays a pivotal role in the growth of the industry and commerce of the country which eventually affects the economy. The Ghana Stock Exchange (GSE) is no exception. The GSE has a major role to play in making the stock market look more attractive for both foreign and local investors to have confidence in it. That is the more reason why the government, industry and even the central bank of a country keep a close watch on what goes on at the stock market. The GSE started operating in November 1990. The Exchange has become one of the leading stock markets on the African continent. The exchange started operation with eleven (11) listed companies and three stock broking firms. Today, the exchange has thirty five (35) listed and eighteen (18) stock broking firms, (GSE Information Bulletin 2009). The GSE basically provides an opportunity for firms to list and generate needed funding for its projects.

Corporate finance theory suggests a number of possible reasons that may explain the decision of a company to list on stock exchange. These include: the need to raise capital to pursue growth opportunities, the desire to enhance the value of the firm and the creation of a market for ownership of the company. Furthermore, the signaling theory suggests that firms may use the decision to list to convey favourable information to the public. For example, information about the potential size of the market or quality of a new product is revealed as firms go public, and when this news is favourable, other firms in the same industry follow to take advantage of the season (Stoughton *et al.*, 2001; Benveniste *et al.*, 2002 and Maksimovic and Pichler, 1998).

It appears that companies go on the stock market to solicit for funds; however, if this conjecture is factual then one would ask why do we have few firms on the Ghanaian stock market? Could it be that bank loans seems to be more attractive than equity financing, or are Ghanaian firms self sufficient in terms of finances? The conventional wisdom is that going public is simply a stage in the growth of a company. Although there is some truth in it, this theory alone cannot explain the observed pattern of listings (Pagano *et al.*, 1998).

Theory has it that the company size, growth, age, market to book values, profitability may affect the likelihood of a company to list. Are these factors applicable in a developing country like Ghana? Is going public a stage in

the life of a company or is it a choice? Are most Ghanaian firms not of age to take an IPO decision? These beg down to the question why do some companies use public equity and some don't. This research work is therefore intended to bring to light the main factors that motivate firms to be listed on the GSE and also to access the short run effect of the performance of the firm after going public.

The Ghana stock market can be classified as that of frontier market with few firms listed on the exchange. Moreover the Ghanaian market is not as developed as that of the developed economies, and hence the factors that motivate those firms to go public in the developed world may not be applicable in Ghana. So far most empirical evidence has focused on the developed economies, it is therefore important to examine this study from the perspective of developing countries given the differences in economic levels. It is on this derivation that this research work is being carried out to find out the main determinants of a firms decision to public from a developing countries perspective.

The rest of the paper is organized as follow. In section 2, we discuss the empirical and theoretical framework underlying the decision to list, the cost and benefit of taking an IPO decision, a description of the data and methodology is presented in section 3. Section 4 presents the analysis and the discussion of the result. Section 5 ends the study with conclusions.

2.1 Review of theoretical and empirical literature

When the organic way of financing a venture is not adequate, an external source may be applied. To go public or not is one of the most far reaching decisions that owners of private companies can make. Whilst there is a wide range of benefits that private firms and their shareholders can obtain from going public, there are also certain obligations particularly with regard to disclosure of information. Whether your company is prospering or facing some difficulties, or whether you want to expand or replace obsolete equipment, the need for long term capital is critical. One way of obtaining such funds is to go public.

2.2 Determinant of IPO Decisions

One of the key determinants of a firm's IPO decision is size. The size of a firm is measured by the total asset based of the firm. Small and relatively young firms seem to have difficulty accessing external sources of financing even in the presence of good investment opportunities and this is normally seen in most emerging markets or developing economies where the public equity markets are relatively under developed. (La Porta *et al* 1997). Studies by Pagano *et al* (1998) and Chemmanur *et al* (2006), on the developed economies suggests that public equity market are generally accessed for the first time by larger and older private firms and these firms time the market very well so as to take advantage of market sentiments rather than fund new investment. Goktan *et al* (2006), argue that larger firms are better able to circumvent financial agony by using organised equity market. Chemmanur and Fulghieri (1999) also advocated that the size of a company acts as a surrogate for the company's status.

According to Beck *et al* (2005) because of the weak legal and regulatory infrastructures in most developing countries, intermediaries have propensity to focus on financing large and well established firms with strong reputation and physical assets in place. La Porta *et al* (1997) documents that most small and young firms with good investment opportunities but no track records often find external financing very difficult to acquire. And this is mostly true in emerging economies where the equity market is relatively immature.

Profitability may affect the probability of an IPO in two ways. First of all it may be positively correlated with the decision to list because of the listing requirements. On the other hand, a more profitable firm needs less external equity, suggesting a negative impact of profitability on the probability to go public. According to Boehmer & Ljungqvist (2004) companies prefer to go public when uncertainty about their future profitability is high; their findings reaffirm that of Pastor and Veronesi (2003). However, if a company is experiencing high cash flows then perhaps the firm does not need external financing which tend to support the pecking order theory.

A company attempts to grow at a certain stage in its development through an IPO. Ritter and Welch (2002) document that potentially high growth firms that are constrained by financing such as cash flows may go public to raise capital for growth purposes. Kim and Weisbach (2008) argue that most firms raise new fund in IPO and some of the funds are used for growth purposes. Life cycle theory suggests that younger/smaller firms will grow faster until they reach some critical or sustainable size (Mansfield, 1962; Hall 1987). Additionally, smaller and younger firms tend to have more limited access to capital and capital markets than larger and older established firms in the economy. On the contrary Pagano *et al* (1998) documents that Italian firms do not go public to finance their subsequent growth but to rebalance their asset structure after high periods of investment and growth. According to the Pecking Order Theory and empirical findings of Pagano *et al* (1998) there is a positive relationship between company's cost of loan and the likelihood of an IPO decision. The higher borrowing restriction a company encounter, the more likely it would opt for IPO as a source of funding. Literature also suggests that riskier firms are more likely to go public (Pagano, 1993) and that riskier firms generally pay higher rates on existing borrowings. Companies with relatively high interest costs may find equity finance more attractive so

Generally, it is expected that firms with higher leverage should be more likely to go public. Kim and Weisbach (2008) suggest that most firms raise new funds in the IPO, and these funds are used for several purposes, including the reduction of leverage. Highly leverage companies face stronger borrowing constraints and a firm's capital structure influences its chances of survival or default, hence higher leverage increases a firm's bankruptcy risk. As documented by Pagano *et al* (1998), firms tends to decrease their leverage when they go public and that IPO might be seen as a tool in reducing bankruptcy risk as they increase the equity ratio and reduces the leverage in the firm.

Mikkelsen *et al*, (1997) studied the prospectus of some issuing firms and documented that 85% stated the IPO was to provide working capital and 64% wanted to raise money for new investment. This tends to suggest that the level of private business investment in the economy should increase following a high periods of listing activities. A frequent scrutiny is that high-investment companies are more apt to go public (Holmstrom and Tirole (1993); Pagano and Roell (1998), hence newly listed companies should increase their investment or reduce their debt exposure after listing. Singh (1995) presents evidence that emerging market firms go public to finance future investment and future growth of assets rather than the more typical argument of firms going public to rebalance their capital structure.

A market is said to be hot when it is characterised by an usually high volume of offering, severe under pricing, frequent over subscription of offerings and at some times concentration in a particular industry (Ritter, 1984). Loughran and Ritter (1995) considered the period of 1980's as hot market because most of that decade had much higher issuance volume than the 1970's. Rajan and Servaes (1997) also modelled and tested this 'windows of opportunity' theory. Several empirical studies also present evidence to reaffirm with this hypothesis, which is typically referred to as the 'hot issue markets anomaly'. Choe *et al* (1993) argue that already listed firms raise more equity in bull markets and Lerner (1994) shows that biotech firms raise equity after periods of unusually high returns of a biotech index. Loughran *et al* (1994) evaluated the question of timing across international markets and find that in 14 of the 15 countries studied; there was a tendency for high IPO volume periods to be associated with lower long-run IPO returns.

2.3 Cost and Benefit of Going Public

2.3.1 The Cost of Going Public

Adverse Selection: Investors are usually less knowledgeable than the issuers concerning the true value of the companies going public. This informational asymmetry adversely affects the standard value of the companies in quest of new listing and thus the price at which their shares can be sold (Leland and Pyle 1977). Chemmanur and Fulghieri (1995) argues that the adverse selection cost is presence more in small and young firms with little track records, hence the probability of a firm taking an IPO decision should be positively related to age and size.

Loss of Confidentiality: The stock exchange rules obligate firms to make public information whose secrecy may be crucial for their competitive advantage, such as data about ongoing R&D projects or future marketing strategies. Companies that report lower incomes to take advantage of tax minimization schemes prefer to keep this information confidential and therefore they are less likely to go public since they are exposed to close study from tax authorities, reducing their scope for tax avoidance and evasion relative to private firms.

Administrative Expenses and Fees: There is cost associated with any initiative that one takes. There are some administrative costs in connections to the decision to go public. Example is the underwriting and registration fees that the firm must incur. Aside these expenses there are some annually expenses like cost of elaborating and disseminating of information about the company, stock exchange listing fees, auditing fees, etc.

2.3.2 The Benefit of Going Public

Overcoming Borrowing Constraints: Getting hold of access to a supply of finance option from banks is perhaps the generally quoted benefit of going public, which is theoretically and empirically cited in most models. Yosha (1995) observed that the main benefit of going public is to have access to sources of finance alternative to bank credit and gain more bargaining power with the banks. According to pagano *et al* (1998) there are three reasons why company's cost of credit may fall after IPO. They documents that a firm becomes safer borrower because they reduce their level of leverage. Secondly, more information become publicly available and lenders spend less resource in collecting information about the credit history of the firm and lastly being listed offers the company an outside financing option that curtails the bargaining power of banks

Investor Recognition, Reputation and Credibility: Merton (1987) develops an asset pricing model under the assumption that investors invest only in stocks of firms they know about. This model predicts that increase in investor recognition and shareholder base lowers the firm's cost of equity and increases its value.

Liquidity and Diversification of Portfolio: The going public decision affect the liquidity of a firms stock and the extent of diversification by the original owners. Pagano (1993) observes that liquidity of a company is an increasing function of its trading volumes. That is one more reason to expect a positive relationship between a company's size and likelihood of IPO.

Change of Control: Zingales (1995) argues that the decision of a firm to go public is the result of a value

maximizing decision made by an initial owner who wants to eventually sell his company. By going public, the initial owner can change the proportion of cash flow rights and control rights which he will retain when he bargains with a potential buyer.

Increasing Number of Potential Investors

IPO on a stock exchange plays a role of advertising a company and improves its recognition among larger set of investors. Merton (1987) explores this aspect in context of the capital asset pricing model with incomplete information. The author shows that the greater the number of investors who are aware of company securities, the higher would be the stock price. IPO as an advertisement improves demand for company's securities and boosts their price, hence the probability of more firms to go public.

3. Data and Methodology

3.1 Data

We obtain data on both IPO's and non-IPO's for the period 1990-2009 from (i) pre-listed financial statement, (ii) prospectus of the listed firms, (iii) the Ghana Stock Exchange, also from the Registrar Generals Department (RGD) on some private firms in Ghana. The firms listed on the stock market were categorized into six sections: (i) Finance/Insurance, (ii) Paper Converters/IT, (iii) Manufacturing/Trading, (iv) Agric/Agric Processing, (v) Metals/Oil and (vi) Pharmaceuticals / Beverages. A total of seventy (70) firms were considered in the study. This comprised of thirty five (35) public firms on the GSE and thirty five (35) prospective private firms which have not yet taken the decision to go public. A comparative measure was used to match the firms (public and private) based on their industry and proximity with respect to size as measured by total assets. This was done because it is believed that firms in the same industry are more likely to have similar operating characteristics like operating risk, profitability and growth prospects.

3.2 Methodology

3.2.1 Estimation Technique

Two set of analysis were carried out in the study:

- (i) The decision to go public
- (ii) Examination of pre and post IPO operating performance.

3.2.1.1 Estimation of the decision to go public

The model of this study follows the one used in Alborno and Pope (2004) and Pagano *et al* (1998) to examine the determinant of the going public decision in UK and Italy respectively. The following regression model was used to test the hypothesized relationship:

$$Y = \alpha_0 + \alpha_1 X_1 + \alpha_2 X_2 + \alpha_3 X_3 + \dots + \epsilon_{it}$$

Where:

Y = dependent or unexplained variable

α_0 = constant of the model

$\alpha_1, \alpha_2, \alpha_3$ = coefficient of the model

X1, X2, X3 = Independent explanatory variables.

ϵ = error term.

$$IPO_{it} = \alpha_0 + \alpha_1 SIZE_{it} + \alpha_2 AGE_{it} + \alpha_3 ROFITABILITY_{it} + \alpha_4 INVST_{it} + \alpha_5 COSTDT_{it} + \alpha_6 LEV_{it} + \alpha_7 GROWTH_{it} + \alpha_8 HOTMKT_{it} + \epsilon_{it}$$

IPO was a dummy variable representing one (1) if a firm has gone public and zero (0) if otherwise.

SIZE: the logarithm of total asset (LOGTA) was used to measure the size of the firm. The expected signs of these variables are positive.

FIRM'S AGE: was measured as the number of year between its founding and the date it went public.

ROA: which was computed as earnings before interest taxes and depreciation (EBITDA) over total assets (EBITDA/TA) Predictions on the relationship between profitability and the probability of going public is ambiguous Since profitable firms can get internal funds to finance investments and would prefer not to go public to avoid agency problems derived from the ownership dispersion.

INVESTMENT: prior literature has it that firm's go public to finance future investment opportunities when the organic way of financing is not adequate. As a proxy for investment opportunities the study used capital expenditures over total fixed asset (CAPEX).

COST OF DEDT: we expected a positive relationship between the cost of credit and the probability of a firm to list. It was measured as total expenses over total debt. Being listed on the stock market offers a company an outside financing option that improves firm bargaining power with banks (Pagano *et al*, 1998).

LEVERAGE: leverage is measured as total debt over total assets.

GROWTH: a firm's growth was measured as the annual rate of growth in sales computed as sales in year t minus sales in year t-1 divided by sales in year t-1 (GROWTH). If firms go public to finance investments and growth

we would expect these two variables to be positively related to the probability of going public.

HOT MARKET: the period between 1996 and 2006 was considered as the hot market period. This is because these periods experienced a lot of offerings and most of the IPOs were oversubscribed, coupled with season offerings and rights issues. Hot market was a dummy variable representing one (1) if a company went public within that period and zero (0) if otherwise.

4. Summary statistics

The study intended to find out the determinants of an IPO decision from a developing country's perspective. The study used all the thirty five (35) firms on the stock market between 1990-2009 and one controlling firm for each of the public firms. The matching of the firms was based on their size and the industry in which they operate. This section of the study expatiates the findings of the study, the discussion begins with a critical look at the descriptive statistics. Table 4.1 presents the descriptive statistics for both the IPO and non-IPO firms, Table 4.2 looks at the probit regression analysis. Table 4.3 illustrates the post IPO effects.

4.1 Descriptive Statistics

Table 4.1 contains summary statistics of the privately held and public listed firms. In terms of statistical significance in means only, the average size of an IPO firm is 5.3594 and that of a non-IPO firm is 4.5669 with a P-value of 0.03925, which implies that IPO firms are larger than their comparables. The mean score of profitability 0.2022 and 0.1709 for IPO and non-IPO firms respectively is not statistically significant. The average age of a publicly listed firm is 23.7 years whereas that of a private firm is 21.3 years. This means that there is no statistical and significant difference in age between an IPO firm and that of non-IPO firm. The average cost of debt for an IPO firm is almost as twice as that of a non-IPO firm. There is not much significant change in profit and growth between the IPO firms and the non-IPO firm. Finally, private firms appear to be less leveraged than IPO firms.

Table 4.1 Descriptive statistics of private and public firms, 1990-2009

VARIABLES	IPO(n=35)		Non-IPO (n=35)		Diff.between The means	Equality of means	
	Mean	median	Mean	median		T-statistic	P-value
SIZE	5.3594	5.3752	4.5669	4.4537	0.7925	2.1447	0.039205
PROFIT (ROA)	0.2022	0.1509	0.1709	0.1349	0.0313	0.5295	0.599869
GROWTH	0.3456	1.2853	0.324	0.2615	0.0216	0.5492	0.586432
INVESTMENT	0.2281	0.1422	0.0983	0.0679	0.1298	2.4376	0.020168
COST OF DEBT	0.2911	0.1981	0.1693	0.1485	0.1816	2.3656	0.023842
LEVERAGE	0.2663	0.1875	0.1493	0.0957	0.1170	2.4850	0.018036
AGE	23.6857	21	21.3143	16	2.3714	0.8959	0.376561

Notes: SIZE- is the log of total assets in millions of cedis, ROA - is the EBIDA over total assets, GROWTH- is measured as the percentage change in sales, INVESTMENT-is measured as the capital expenditure over total assets. COST OF DEBT- is the total interest expenses over total debt of the firm, LEVERAGE- is the total debt over total asset, AGE- years since establishment to the IPO and HOT MARKET is a dummy variable that takes the form of one if a firm goes public between 1996-2006 and zero if otherwise

4.2 Determinants of the decision to go public

Table 4.2 provides the estimates of the model of the decision to go public. Of the eight estimated coefficients, four are statistically significant at 0.1 or lower.

Table 4.2 Estimate of the model

	coefficient	Std. Error	z-stat	P> zI
C	-3.5799	.9617453	-3.72	0.000
SIZE	.2732325	.1177631	2.32	0.020
PROFIT (ROA)	-.338308	.9304849	-0.36	0.716
GROWTH	.5430316	.9963366	0.55	0.586
INVESTMENT	3.118757	1.575002	1.98	0.048
COSTDEBT	3.57974	1.379782	2.59	0.009
LEVERAGE	2.420021	1.078368	2.24	0.025
AGE	.0188143	.0144376	1.30	0.193
HOTMARKET	-.108870	.3709642	-0.29	0.769

Probit regression	Observations =70
Log likelihood = -33.6419	LR chi ² (8) =29.76
	Prob>chi ² =0.002
	Pseudo R ² = 0.3066

Notes: SIZE- is the log of total assets in millions of cedis, ROA - is the EBIDA over total assets, GROWTH- is measured as the percentage change in sales, INVESTMENT-is measured as the capital expenditure over total assets. COST OF DEBT- is the total interest expenses over total debt of the firm, LEVERAGE- is the total debt over total asset, AGE- years since establishment to the IPO and HOT MARKET is a dummy variable that takes the form of one if a firm goes public between 1996-2006 and zero if otherwise.

4.3.1 The relationship between size and the probability to go public

The regression result shows that there is a positive relationship between a firm's size and the probability of going public. The finding is consistent with the result of Pagano *et al* (1998). Company's size is an important determinant of an IPO decision and this is in agreement with theories on direct cost, adverse selection and information asymmetry. This was documented by Chemmanur and Fulghieri (1995). Size being positively related to the decision of going public in our study is also consistent with Goktan *et al* (2006) who argues that larger firms are able to circumvent financial agony by using organised equity market; this was reaffirmed by Perevozchikov (2007). Our result shows that smaller firms would make less use of public equity and are likely to rely on internally generated funds.

4.3.2 Relationship between cost of credit and the IPO decision

From the results in Table 4.3 the coefficient of cost of debt is positive and significant at one percent (1%). The result indicates that a company with relatively high interest costs finds equity financing more attractive, and also for balancing their capital structure having attained a theoretical financing target. Literature also supports the argument that riskier firms are more prone to take an IPO decision (Pagano 1993). By this, it implies that firms in Ghana will go public when their cost of credit increased or when they are confronted with high cost of credit financing.

4.3.3 Relationship between leverage and the decision to go public

The study found a strong support for the hypothesizes that highly leveraged firms are more likely to take an IPO decision. The coefficient of leverage is at five percent (5%). It is believed that the capital structure of a firm affects its possibility of default, hence higher leverage increases bankruptcy risk. Since a firm tends to reduce its leverage when they go public as documented by empirical studies like (Pagano *et al* 1998). With a significant level of 5%, firms in Ghana seem to have the potential of going public when the proportion of leverage is high in their capital structure.

4.3.4 Relationship between investment and IPO decision

It appears that most firms in Ghana will make an IPO decision when they have a lot of investment opportunities and if their internally generated funds are not sufficient, hence high growth firms with lots of investment opportunities would be expected to take an IPO decision. Kim and Weisbech (2008) argues that IPO monies are used to fund future growth and substantial amount of these monies are used to fund R&D and on capital expenditures. Both the variables that measure firm financing needs, that is, investment and growth increases the probability of going public as expected. But the coefficient of growth is not statistically significant, and that of investment is significant at ten percent (10%).

The result of the regression analysis for the model indicate $R^2 = 0.3066$ which implies that there is a mild relationship between the explanatory variables and the dependent variables. Even though four of the variables were statistically significant.

4.4 Analysis of pre and post IPO operating performance

Table 4.3 summarise the year and the industry effect following an IPO in terms of significant differences in their means. The study wanted to know whether there is any significant difference between the means of the

population.

Table 4.3 Post IPO effect

Variable	Pre-IPO (n=35) Mean Median		Post IPO (n=35) Mean Median		Diff. Between means	Equalities means T-statistic value	of P-	Equalities of medians Wilcox	p-value
Size	4.643	4.427	4.9678	4.768	0.3241	-1.0493	0.2977	1.1746	0.2402
ROA	0.182	0.134	0.1461	0.101	0.0358	1.1262	0.2680	1.5387	0.1239
Growth	0.418	0.302	0.3240	0.274	0.0942	0.9466	0.3505	0.7283	0.4665
Invest	0.132	0.071	0.0908	0.073	0.0411	2.0627	0.0468	1.0219	0.3068
Cost of debt	0.205	0.167	0.1801	0.139	0.0251	2.0534	0.0478	0.8457	0.3977
Leverage	0.253	0.176	0.0959	0.070	0.1566	4.6006	0.0000	3.4651	0.0000

Notes: SIZE- is the log of total assets in millions of cedis, ROA - is the EBIDA over total assets, GROWTH- is measured as the percentage change in sales, INVESTMENT- is measured as the capital expenditure over total assets. COST OF DEBT- is the total interest expenses over total debt of the firm; LEVERAGE- is the total debt over total asset, AGE- years since establishment to the IPO.

The post IPO result shows that IPO firms go public to reduce their level of debt and not to fund future investment and growth, which is in agreement with the results documented by Pagano *et al* (1998) but in contrasts with Singh (1995). However, even though leverage reduced significantly, another reason that may contribute to this might be the level of equity that has being injected into the firm.

Investment opportunities available to the firm was a significant determinant of the IPO decision of a firm, however, the post IPO effect of investment reduced at a significant level of 5% which pre-supposes that firms do not really go public to source for funds for investment opportunities but for other purposes. The result is corroborated by a recent study by Bancel and Mittoo (2008) on why European firms go public. The study therefore documents a reduction in the cost of bank credit after the IPO at a significant level of 5% and this reduction may come as a result of improved public information associated with stock exchange listing requirements as documented by (Pagano 1998).

5.1 Conclusion

Using a database of eligible private firms in Ghana for a sample of firms for the period 1990-2009, we empirically studied the determinants of initial public offering by comparing the pre and post-IPO characteristics of private firms. The analysis revealed that the probability of a firm to go public increases with firms size, cost of debt, leverage and investment opportunities. However, we found less support for profitability, hot market, growth and age of the firm as determinants of the decision to go public in Ghana. The post IPO result shows that IPO firms went public to reduce their level of debt in the firms and not to fund for future investment opportunities as the study recorded a decrease in the level of investment opportunities at a significant level of 10%. Our result is similar to the result of Pagano *et al* (1998), Planell (1995) but in contrast with Singh (1995). Furthermore, our analysis of financial performance metrics before and after the IPO indicates that IPO firms on average growth rate reduces after going public, and their profitability deteriorates marginally which is in consistent with a study by Loughran and Ritter (1995) and that of the size increase, however all these were not statistically significant. The GSE has profitability as one of the requirement for going public; from our study it reveals that profitability is not a significant determinant of the decision to go public. With this awareness management of the Ghana Stock Exchange can help educate the public especially entrepreneurs on the factors that motivate firms to go public and also the benefit that can be derived from taking the IPO decision.

The study is limited to all the thirty five (35) firms on the stock market and thirty five (35) selected private companies that meet the basic criteria for going public. This is justified by the fact that, getting information on private firms is very difficult to come by, hence the decision to limit the study to only these companies. The result presented in this study have not been adjusted for industry commonality factors which could have affected the result, to account for industry-wide factors, one would match the post IPO sample performance with their control firms. Future studies in this area should consider placing much emphasis on more private firms controlling for industry-wide factors and include more variables in the estimation. Examining of long term

performance of IPO firms could also be considered for further research this is to test whether the long term performance of IPO firms in Ghana is consistent with what is documented in literature, that is IPO firms under perform in the long run. We therefore recommend that further studies should consider this aspect of the work.

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