

Factors Affecting the Going Public Decision of Private Companies in Sri Lanka

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Listing companies on the stock exchange offer many benefits for the companies, investors and the economy. However, few companies have gone public in Sri Lanka. This study explores the reasons and factors affecting the go-public decision of companies in Sri Lanka. Further, it investigates how IPO activities respond to macroeconomic dynamics in Sri Lanka. This study employs the sequential exploratory design with multiple triangulation. Based on the benefit-cost trade-off theory of going public decision, the phenomenological analysis is performed on the transcript interview and IPO prospectus in the study's first phase. The interviews were conducted with those directly involved in the listing process and shared their experiences. Based on the first phase result, we designed a questionnaire that collects primary data from finance professionals and accountants working in listed and qualified unlisted companies. The characteristics of the respondents' company, their opinion about the motives/benefits and costs/constraints of the going public decisions, and their perception of stock market characteristics and behaviours towards going public decisions were collected through the questionnaires. This study utilizes 283 questionnaire responses as the final sample in the second phase. The analysis reveals that raising capital for long and short-term growth and building corporate image and governance structure are the main reasons for going public. The factor analysis, logistic regression and structured equation modelling found that 1) financing for future growth and lowering the cost of capital, 2) corporate image and liquidity, and 3) loss of ownership are the significant factors affecting going public decisions in Sri Lanka. Furthermore, firm size also has a significant impact on the decision. The autoregressive distributed lag (ARDL) analysis of macroeconomic factors reveals that return on investment significantly impacts IPO activity in the long run. While the factors, trade openness & banking sector development, and return on investment significantly impact IPO activities in the short run.

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