External Equity Financing: Assessing the Interest of Construction Companies to List at Dar es Salaam Stock Exchange

Victor D. Nkundu – Email: victortz@yahoo.com
University of Dar es Salaam Business School

Tobias A. Swai. PhD. Email – tobias@udsm.ac.tz
University of Dar es Salaam Business School

This study examines construction companies' interest to external equity through listing to Dar es Salaam Stock Exchange. This follows various reasons among others the fact that the sector is capital intensive and its contribution to the Gross Domestic Product. Another reason was the fact that data indicates tenders in construction industry are offered to foreign firms due to the lack of capital investment by the local companies. Despite all these, there is low motivation and interest of companies to use the capital market to acquire equity despite of it being the cheapest source of fund. Given the magnitude of construction industry business in Tanzania, there is no single company listed to the bourse to date. This study was thus done to assess the readiness, awareness, influence of profitability and internal framework of the company's financial needs on the interest to list. A simple random sampling technique in selecting respondents and informants were selected purposively for data generated through questionnaire administered to them.

Findings of the study indicates that majority of contractors prefer to use internal generated funds to finance their activities, and if external finance is necessary they prefer debt financing through lending from commercial banks and other debt financing sources so they take external equity financing as a last resort –and this follows pecking order theory. The results show that there is low interest of listing because of perceived stringent listing requirements and high costs associated with listing.

Key words: Stock Exchange, Equity, Construction

INTRODUCTION

Background Information

Interest on the firms to use alternative sources of finance has been in the literature of finance for long time. Also the objective of the firms which is maximization of shareholders value and acquire

resources to be competitive has been an established stylized fact in business. One of the scarce resources in business firm is access to finance, and costs which are associated with raising such finance (Begenau and Salomao,2014). Various forms of financing are available for business firm which includes internally generated funds and external financing sources (bank loan and external equity sources). Costs and benefits of each source depends on the sector requirements and industry dynamics as well as competitive nature of the industry.

The decision to raise external equity depends much on the capital structure of the firm. Many companies finance their business using internally generated funds because they believe that the cost of internal equity is generally lower than the relative cost of external equity financing (Belo, Lin and Yang, 2014). However, for a capital intensive industries such as construction industry, depending on the internal sources will make the firm less competitive. *Equity sources are more likely to be preferred in semi-capital intensive and quite competitive industries such as construction industry.* To raise external equity the company may use different sources such as equity from venture capitalists, equity from friends and family members, or the company may decide to go public by listing in the stock market. According to Pastusiak, Bolek, Malaczewski and Kacprzyk (2016), listing and trading of shares at the stock exchange is very crucial for the companies' development. It is a cheap means of obtaining additional capital for new investments.

Construction Industry and its Contribution to Tanzanian Economy.

Construction industry transforms various resources into constructed physical economic and social infrastructure necessary for socio-economic development (MoW, 2003). Tanzania construction industry is still quite young and there is still huge construction projects planned, necessary to support the country's development agenda. The industry comprises firms and individuals working as consultants, main contractors and sub-contractors, material and component producers, plant and equipment suppliers, builders and merchants (UNESCO, 2010).

Construction industry holds a very special place in Tanzania's economy as it cuts across all other sectors and stimulates their growth (CRB, 2015). The industry contributes hugely to the Gross Domestic Product. In the year 2015 the sector contributed 13.2% of all the wealth that was generated in the country, and created more than 9% of the employment opportunities (BoT, 2015). Because of importance of construction industry for social and economic benefits, the government

has continued to be more committed to placing emphasis on construction industry by allocating 10.8% f 2015/2016 development budget to infrastructure (URT, 2015).

The construction industry in Tanzania is highly competitive. The There are 7,380 contractors registered by CRB, where 243 or 3.2% in class I and among those 243 companies 109 or 44.8% of 243 are local companies, 134 or 55.1% of 243 are foreign companies. 71 companies or 0.9% of 7,380 in class II. Normally class I companies are the most competitive for the big ticket projects.

Dar es Salaam Stock Exchange.

Dar es Salaam stock exchange (DSE) provide opportunities for companies to raise capital by listing their securities (debt and equity securities) to be accessible to the public. The bourse was incorporated in 1996, as a non-profit company limited by guarantee, until it was demutualized in June 2015. As of December 2016, DSE has 23 listed companies of which 16 are local companies and 7 are cross about TZS. 21,728.57 billion market capitalization. Of the listed companies none is from the construction sector. Compared to Egyptian Stock Exchange (EGX) which is the leading capital market in Africa with large number of listing exceeding 833 listed companies there are only thirteen (13) construction companies listed in the capital market (EGX, 2015). In Johannesburg Stock Exchange (JSE) which is the second largest stock exchange in Africa with more than 483 listings in 2015, but there are only 10 construction companies listed in this capital market (JSE, 2015). Nairobi Stock Exchange (NSE) is the sixth stock exchange in Africa and first in the East African region with more than 66 listed companies but there are only five construction companies listed in this capital market (NSE, 2016). It can be noted that there is generally low trend of interest for construction companies to list their shares, however; with more than 15 years of existence of DSE, no interest whatever has aroused from the Tanzania construction firms.

Problem Statement and Objectives of the Study

Statement of the Problem

Financial resource is key to the business undertaking. Lack of capital resources especially finance sources to acquire relevant capital goods may make a firm less competitive especially in the capital intensive industry such as contraction. Lack of capital is a result of poor capital structure decision and it is one of the determinants of firm's failure (Baharuddin, Khamis, Mahmood and Dollah,

2011). Participation of construction companies in available big ticket construction jobs opportunities is very low, and the main reason cited is lack of capital for the local firms (CRB, 2015). CRB indicated that for the year 2015 construction companies won a total of 3,172 projects worth TZS 4.23 Trillion, mostly worn by foreign construction firms. Low participation and failure to win construction tenders by local companies is a result of stiff competition arose from lack capacity of local companies. Inadequate capacity of construction companies is a result of many factors, inadequate capital being the greatest of all (MoW, 2003).

Construction companies in Tanzania finance their investments through new equity and internal sources including retained earnings MoW (2003). Other companies obtain their capital through acquiring loans from banks and other sources which is not sustainable (associated with high risk) as compared to equity that could be raised from stock market. Kibodya (2008) observed that a number of contractors seeking financial accommodation from banks find themselves disqualified due to lack of or inadequate collateral. Banks has stringent procedures of acquiring loans sometimes the contractors may access the loan very late making them vulnerable to penalties or missing the particular project. To control this, CRB has established a guarantee fund for contractors. But this has not been a cure to the whole problem.

Stock market is a source of cheap capital for all companies. The decision to go public by construction companies could be the best choice if they want to obtain less expensive and a more sustainable source of finance to expand the companies and enjoy the opportunities available in the market. There are other various opportunities arise from the listing at the stock market including publicity and tax cuts. Others include improved corporate governance and well organized leadership (Mohamadi, 2012). For a public company diversification is very easy because of the cheap access to capital which may fund all potential investments that the company needs to take. Despite of the market opportunities for the construction companies' available, listing benefits and huge capital demand by the companies to be competitive to the opportunities, there is a still unresolved issues why construction companies are not motivated to list. This study investigated reasons which hold back construction companies to list in DSE.

Objectives of the Study

The study has thus developed four objectives.

i) To assess the influence of internal framework of a specific company's financial needs in the decision to go public.
ii) To assess the effects of profitability of a company on the decision to go public.
iii) To assess whether construction companies are aware of opportunities offered by DSE.
iv) To assess the readiness of construction companies to take listing initiatives.

LITERATURE REVIEW

There are various theoretical perspectives in explaining the motivation and relationship of various decision to adopt various forms of financing, including the decision to list and its associated implications. Studies have been conducted previously and various theories have been applied to trace the behavior of companies in the decision to go public.

Theoretical Literature

The Agency Cost theory

This theory was developed by Jensen and Mecking (1976) focusing on the costs which can be created due to the conflict of interest that exist between managers, shareholders and the investing public. According to Copeland and Shastri (2014) agency problem arises basically because contracts between managers and owners cannot be written and enforced at no cost. Agency costs include: (i) Cost of structuring a set of contracts (ii) Cost of monitoring and controlling the behavior of agents by principal, (iii) Cost of bonding to guarantee that the agent will make optimal decisions or principal will be compensated for the consequence of sub-optimal decisions and (iv) The residual loss that is the welfare loss experienced by principals arising from divergence between agents decision and decision to maximize principal's welfare. This residual loss can arise because the costs of full enforcement of contract exceed the benefits.

For the business firm, agency conflicts between managers and shareholders may be particularly severe. When shareholders are the same as managers, inviting other players in the company may not be welcomed. Companies which are not listed are likely to have more concentrated ownership and generally the shareholders often run the firm which decreases the conflict of interest between

shareholders and managers, therefore no or few agency problem will exist (Copeland and Shastri, 2014). According to McMahon, Forsaith, and Richard (2001) agency problems increase cost of external financing such as monitoring and bonding costs which are necessarily incurred. Therefore this theory implies that companies will not choose the decision to go public to avoid costs associated with conflict of interests that may arise due to the dispersed ownership.

Pecking order theory

Pecking order theory basically states that the cost of financing increases with asymmetric information. Financing comes from internal funds, debt, and new equity. As such, when seeking funds, a firm prefers internal equity to external debt, short-term debt to long-term debt, and external debt to external equity if external financing is needed. Therefore raising equity, in this sense, can be viewed as a last resort (Cassar and Holmes, 2003).

Pecking order theory was popularized by Myers and Majluf (1984) they argued that equity is a less preferred means to raise capital because managers who are assumed to know better about true conditions of the company than investors are the ones who issues new equity. Investors believe that managers overestimate their companies and are taking advantage of this overestimation therefore they reduce value to the new equity issuance. With this regard information asymmetries suggest that external finance is more expensive than internal finance as financiers add a risk margin to cover their information disadvantage.

Pecking order theory maintains that businesses stick on a hierarchy of financing sources and prefer internal financing when available, and debt is preferred over equity if external financing is required. Consistent with this theory Gregory, Rutherford, Oswald, and Gardiner (2005) argue that older firms should be less reliant on external financing sources than younger firms. They attribute this to the fact that because older firms have more opportunities to accumulate retained earnings than younger firms, more internal funds are available to finance their operations. Copeland and Shastri (2014) explain pecking order theory as a dynamic story which means that the observed capital structure or financing choices of each firm depends on its history. For instance an unusually profitable firm in an industry with relatively slow growth (few investment opportunities) end up with an unusually low debt-to-equity ratio, this has no incentive to issue debt and retire equity. On the other hand unprofitable firm in the same industry end up with a high debt ratio. Age and

profitability of a firm has been seen as important issues in this theory, that's why this study has assessed the influence of age and profitability of construction companies in the decision to go public.

Trade-off theory

According to Hovakimian, Hovakimian, and Tehranian (2004) trade-off theory is built around the concept of target capital structure that balances various costs and benefit of debt and equity. Often it is assumed that an interior solution is obtained so that marginal costs and marginal benefits of debt and equity are balanced. The original version of trade-off theory grew out of the debate over the Modigliani-Miller theorem. These include the tax benefits of debt and the cost of financial distress and various agency costs of debt and equity financing (Modigliani, 1963). According to trade-off theory managers do not attempt to maintain a particular capital structure, instead financing choices are driven by the costs of adverse selection that may arise as a result of information asymmetry between better informed managers and less informed investors. These costs are incurred only when firm issues securities and are lower for debt than for equity. Therefore firms prefer internal financing and prefer debt to equity when external funds have to be raised (Hovakimian et al., 2004). Since construction firms depends on the projects, and since financing for such projects mostly are not predictable especially in developing countries such as Tanzania, where majority of construction is financed by the government, financing through listing and costs associated may be costly to the companies as the future is always uncertain.

Empirical Literature

Frank and Goyal (2007) tested the pecking order theory by studying a sample of 768 publicly held US firms with at least 19 years of data. The theory predicts that external financing should be only a small portion of the total capital formation and that external equity should be a small fraction of external finance. Surprisingly Frank and Goyal found that external finance is large that net equity issues commonly exceed net debt issues. The net equity issues track the firms financing deficit much more closely than do debt issues. They also found that the financing deficit does not challenge the rate of conversional leverage factors (Example sales revenue, profitability, fixed to total assets, etc.) that the proxies for equilibrium factor that explain capital structure. Finally since the pecking order theory is motivated by adverse selection cost caused by asymmetric information, it should work best in small high-growth firms, Frank and Goyal find quite the opposite, it works

the best in large firms that has existed for many years. But this study suggests that it should work best in both small and large firms because all of them are faced with a risk of adverse selection costs.

McMahon, Forsaith, and Richard (2001) conducted a research on equity financing patterns amongst Australian manufacturing SMEs. They found that less than 10% of SMEs ever undertake new equity financing, meaning that only few of them are listed in their respective stoke exchange suggesting that this is not a popular alternative. Debt financing appears to dominate the balance sheets of most firms. According to Ngugi and Njiru (2005) the situation like this implies that firms are not aware of the opportunities offered by stock markets therefore it is important to enhance creation of public awareness and education as to the existence and usefulness of the capital market to the public and the economy at large.

A Ghanaian study by Abor and Biekpe (2005) determined how firms establishes their capital structure in their dynamic setting. Results revealed that Ghana stock market is an important source of long-term financing for listed firms.

Kiboi (2012) studied development of the stock market in Kenya and identified legal and regulatory framework as a factor hindering its development. Stringent and numerous entry requirements were identified as main obstacles for private companies not to seek listing at the NSE. The other relatively more influential factors identified were the political environment, company's capital structure, public scrutiny, dilution of ownership and a lack of necessity to raise long term funds. The influence of the factors identified were included in this study as Tanzania and Kenya have a lot in common.

METHODOLOGY

To develop a clear understanding of reasons which hold back construction companies to list at DSE, it is pertinent that multiple-methodological approaches were applied. This study used primary and secondary data. Unit of analysis was construction firms.

A sample size of 96 contractors were selected based on the Saunders, Lewis, and Thornhill, (2009) formula for calculating minimum sample size. Total population was all the contractors as provided by the Contractors Registration Board (CRB). To reach such sample, 105 respondents were

identified and a questionnaire was self-administered to the companies. However, the total respondents was only 71 companies making 68% of the respondents and 74% of the targeted sample of 96 firms.

Purposefully the selection of the respondents was based on those based in Dar es Salaam. Most of the business transactions including means of 0financing businesses through equity or debt finance are done in Dar es Salaam where headquarters of most financial institutions are located. The study included respondents from four field namely mechanical contractors, electrical contractors, civil contractors and building contractors and from class I to class VII in each field. A simple random sampling was applied in selecting respondents from each class and in each of the four fields in order to provide equal chances for them to be selected as representative.

Data was collected using questionnaire. The questionnaire consist three sections. Section I inquired information about the company, Section II on the company financing options and the Section III was based on the assessment on the willingness of the company to list its shares at the Sa res Salaam Stock Exchange Sections II and III responses were given options based on the four main issues of the study measured in a Likert scale.

Respondents of the questionnaire were top management of construction companies. Most of the data was collected during the 2016 CRB Annual Consultative meeting where by more than 1,000 construction firms were represented. Descriptive approach was used to analyze the data given the nature of the study.

Based on the respondents, 64 (92%) were private companies while 7 (8%) were public companies. Distribution of the questionnaire and collection based on the specialization of the contractors

Table 1: Status of Questionnaires Administered based on Contractors Specialization

Category	Number of questionnaires		Percentage (%) of collected questionnaires
	Distributed	Collected	
Building Contractors	32	26	81
Civil Contractors	27	18	67
Electrical Contractors	22	13	59
Mechanical Contractors	24	14	58
Total	**105**	**71**	**68**

Based on the contractors' classifications, 16 respondent were from class I and III which is equivalent to 21.9% each, of the respondents. Class VI had 11 (15.1%), Class II and V had 9 (12.3%), Class IV had 6 (9.2 %.) while Class VII had 4 (7.5%) of the respondents. Data was collected from all classes of contractors to eliminate biasness and increase reasonableness and reliability of information.

Based on the variables studied, a confirmatory factor analysis was considered necessary. The results are as presented in Table 2

Table 2: Pattern matrix for the Factors used in the Study

Items grouped	Correlations	Factors/Components
Returns from financial Assets	0.769	Profitability
Profit from operating activities	0.892	
Net profit margins	0.937	
Financial needs to acquire financial Assets	0.783	Internal framework of a company's financial needs
Need for money to run all operations of the company	0.726	
Size of the company	0.711	
High costs of listing	0.809	Readiness
Influence of listing requirements	0.808	
Influence of retained earnings	0.61	
The role of DSE on the process of acquiring equity	0.833	Awareness
The operations of DSE	0.876	
The existence of DSE	0.732	

Factors were grouped according to the order of importance starting with the most important factor to the list important factor. All factors have positive influence on the decision to go public though they differ in the order of importance.

RESULTS AND DISCUSIONS

This section presents findings and explanation of what have been observed from data analysis. Each variable is discussed to give answers to research questions and explain what have been observed from the field.

Descriptive Analysis of the Data

Based on the definition of Small and Medium Enterprises, a consideration for the number of employees was considered. More than 90% of the respondents were Micro, Small and Medium Enterprises.

Table 3: Number of Employees and Classification of the Respondents

Number of Employees	Frequency	Percent (%)
Below 10 (Micro)	24	32.9
11-50 (Small)	28	38.4
51-100 (Medium)	14	19.2
100 and above (Large)	5	9.5
Total	**71**	**100**

The data collected indicated that most of the companies (57%) were having more than three years of operations. All the companies have at least won a tender as a main contractor or subcontractors to construction projects. Table 3 indicates age and number of tenders 72% of the 804 construction jobs worn by the respondents in class I to III.

Table 4: Age of the Firm Vs Number of Tenders won by the Firm

Age of the company in years	Frequency	Percentage (%)	Number of tenders won by the company
Below 3	24	32.9	109
4-10	24	32.9	267
11-20	18	24.7	312
21 – and above	5	9.5	116
Total	**71**	**100**	**804**

The results indicates that companies which have stayed for many years in the industry are more likely to win tenders because of the trust from the public and experience they have in the industry. These results comply with arguments made by Gregory, Rutherford, Oswald, and Gardiner (2005) that older firms should be less reliant on external financing sources than younger firms because older firms have more opportunities to accumulate retained earnings than younger firms then more funds will be available for investments. Also capital intensive companies i.e. class I to III are more likely to win tenders than less capital intensive companies.

Financing options of Contractors

For internal sources of funds it has been observed that contractors use different sources of internal sources of fund. The most preferred internal source of fund is retained earnings where more than 51.6% of respondents revealed that they are using retained earnings for further investments, bootstrapping is the second internal source of fund which has been observed to be the best option for contractor where 25% of respondents revealed that they are using this option, re-investment by current shareholders is also another option which is common to contractors where they use funds from shareholders to finance their new investments 19% of respondents revealed that they are using this option, the last internal source of fund which have been observed to be important to contractors is leasing of equipment in exchange for fund or professionals.

For external sources of funds more than 74.7% of respondents use commercial bank as the source of fund for their investments. Therefore debt financing is their first option if they seek financial support from outside the organization. Only 15.5% of respondents claim to go for public offering if they seek financial support from outside. 62% of respondents use retained earnings or re-investment by current shareholders to finance their projects, but they will go for debt financing if retained earnings are not enough.

Results Based on the Objectives of the Study

The Influence of Internal Framework of a Company's Financial Needs in the Decision to Go Public

The results show that most of companies requires huge amount of money to run their operations. 67.3% of respondents agreed to the inquiry that "*the company needed large amount of money for its operations during the last three to five years".* 82.2% of respondents agreed to our inquiry that *"the company needed large amount of money to acquire and maintain its financial assets".* Financing construction assets is very expensive and to possess enough assets to run all activities and be competitive, companies in this industry requires large amount of money. Findings from the field suggest that companies fail to win tenders because they do not have the required facilities to qualify for the tender. Large and medium sized companies have more financial needs compared to small companies. Large companies include those class I, II and III.

Construction companies require huge funds to acquire assets though they accumulate huge retained earnings they still need additional capital from outside the company. 60.1% of respondents agree to the idea that size of the company has much influence in the decision to list, the result also shows that time that the company has operated in the business has much influence in the decision to go public. Companies which are new in the industry (those companies which has operated for years less than 10) believe that they need to stay a little longer in the business before they list, therefore size and age of the company has a greater influence on the decision of a company to list. Generally if internal framework of a specific company's financial needs is high the firm will be forced to seek financial support from outside.

Influence of profitability of a company on the decision to go public.

Results in this part are summarized to give explanation on return on assets of a company, operating profit of a company, profit margin and retained earnings of a company.

ROA – Return on asset

In the assessment of influence of profitability in the decision to list, the study examined return on asset of each company and measures their listing perception in relation to ROA. 55.2% of respondents agreed the notion that "financial assets owned by the company produced enough return so there is no need for listing". This shows that companies depend much on profits made from their financial assets as a source of fund for further investments.

OP – Operating profit

57.8% of respondents indicates that operating activities produce enough profits which cover all financial needs so there is no need of listing. This suggests that companies will not seek financial aids from outside sources because their operating activities produce enough funds for further investments and if it happens that external sources are needed companies will choose debt financing and they prefer lending from commercial banks as the alternative source of fund, listing is a last resort for them.

PM- Profit margin is the major determinant of the company's prosperity, if the company is making enough profit it is certainly that opportunities of expanding are increasing. According to results from the field more than 77.6% of firms have been observed to find ways to avoid the need for external financing through creativity, ingenuity, cost-cutting and other means so that the profit generated will be enough for reinvestments. The results suggest that companies with high profits are more likely to remain private because earnings are retained for further investments. Therefore all financial needs will be covered by retained earnings.

Readiness of Contractors to go Public.

This variable is measured by assessing costs associated with listing, assessing perception of stakeholders on listing requirements, influence of size of the company, influence of age of the company and time that the company has spent in the industry. Most of companies do not pay dividends or they pay little dividends and retain some earnings for further investments. Thus why 60.2% of respondents disagreed to the notion that "the company needed large amount of money to

pay dividends". Meaning that they pay little or no dividends instead earnings are retained for further investments.

Based on findings costs associated with listing have been observed to be the problem which hinders construction companies to list in DSE. The result shows that 87.4% of respondents agree with the idea that costs of listing are high. Listing requirements are also stringent, 82.5% of respondents believe that listing requirements are very stringent and difficult to fulfill. It has been observed that these requirements tend to favor large foreign companies which are always not interested in listing on DSE because most of them are already listed in their home countries.

These results represent majority of respondents who reveal that costs of listing and listing requirements are among the reasons which hold back most construction companies to list in DSE. According to DSE (2011) costs of listing involves initial costs that the company will incur such as costs of furnishing annual reports and preparation of financial statements, initial costs to prepare a firms legal affairs, costs of maintaining a strong board of directors of which most of companies declares that they do not have board of directors, other costs involve annual membership fee which the company must pay to the stock market in order to maintain its membership. These results comply with those of the study done by Messah (2011) about reasons for low listing by agricultural companies in Kenya, the result indicated that most of respondents were complaining about high registration fees and costs associated with listing.

Awareness of Contractors on the existence of DSE.

Findings revealed that only 52.7% are aware of the role played by the stock market in equity financing. 82.2% of respondents are aware of the existence of DSE. This suggests that contractors are quite aware about DSE and its roles, implying that awareness is not the reason why they do not list.

The results of this study are inconsistent with results of the study done by Massele, Darroux, Jonathan, and Fengju, (2013) on the challenges faced by DSE. In their study, they found that despite the efforts done by DSE to publicize and provide market information via television and radio programs, seminars, fair exhibitions and regional integration there are number of Tanzanians who are still unaware of the existence and the role of stock market in acquiring external equity.

According to findings of this study there are many other reasons which hold back construction companies from listing in DSE as observed from the open question which asked respondents to give other reasons which make them hesitate to list in the stock market. One of their reason was dilution of ownership where respondents believes that by listing in DSE their state of ownership in the company will be diluted by selling of stocks to other shareholders making the company to have many owners and therefore reducing the power to make decision by the original owners. This was also observed in the study done by Yartey (2005) on Ghana stock exchange revealed that 33% of companies surveyed were unwilling to list on the stock market for fear of losing control. Another reason which was postulated was fear for information asymmetry, most of managers are afraid of the well informed market and they believe the market may have information which the company does not have so shareholders may use that advantage to make sure they are gaining more than the original owner. Other respondents said that one of the reason which hold the back is fear for fluctuation in exchange rates and uncertainty of inflation.

Secondary data was obtained from different publications of the stock market and data from other publications. According to DSE (2011) reasons which hold back companies from listing on DSE include the following; there is no specific policy set by the government which will influence compliance by all companies, therefore companies find it not necessary to take initiatives of listing in DSE. Bureaucracy is also one of the factors which lead companies become less motivated to take initiatives of listing. Other companies do not want to list because they are afraid of being exposed, due to the fact that they will be forced to expose all business dealings and increased transparence to all transactions therefore forced to comply with tax requirements. On the other hand companies do not want to list because of political reasons DSE (2016) reveals that other companies have no interest of listing because of uncertainty in political instability, changes in policies and lack of emphasis from the government.

A linear regression of the factors were subjected to a test and the results are as shown in Table 5.

Table 5: Coefficients of Linear Regression

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-1.372	.755		-1.818	.074
	Awareness	.096	.096	.233	2.106	.039
	Readiness	.203	.035	.293	2.764	.008
	Profitability	.533	.091	.292	2.750	.003
	Internal framework of a company's financial needs	.250	.175	.343	3.039	.007

According to Table 5 profitability of the company is the most significant factor which may contribute to the decision of a company to go public with a significant level of 0.003, then internal framework of a company's financial needs follows with a significant level of 0.007, readiness and awareness follows with significant level of 0.008 and 0.039 respectively. All factors have significant level less than 5% significant level, suggesting that they have strong influence in the decision of a company to go public.

CONCLUSION

The main objective of this study was to establish factors which hold back construction companies to go public by listing in DSE. Furthermore the study aimed at determining which financing options are best taken by construction companies. The results reveal that companies comply with the pecking order theory where internal source of finance is the best source of fund. But when external source is necessary companies will go for debt financing by borrowing from bank and equity financing being the last option.

The study has established that most of companies use retained earnings as a source of fund for further investments so this shows that internal source of fund is the first option that companies will take before thinking of other sources, but if external sources are needed companies are more likely to go for debt financing by lending from commercial banks.

According to findings more than 74.7% of respondents indicated that lending from commercial bank is an important source of financing for their business, they also see public offerings or selling stocks to the public as their last resort when seeking additional funds. These findings comply with arguments done by Gregory et al., (2005) they argued that older firms should be less reliant on external financing sources than younger firms because older firms have more opportunities to accumulate retained earnings than younger firms, more internal funds are available to finance their operations. The study revealed that older firms has more abilities to finance its operations using internal sources of fund compared to younger firms though there are sometimes when they need external financing sources. Lack of construction works, high competition and lack of proper governance structure may also inhibit the construction firms not to list their shares in public.

Managerial Implications and Recommendations

This study contributes to the process of increasing the number of listing in DSE and shades light on the problem of low listing interest by construction companies. The study recommends that the construction companies should take initiatives of listing to obtain a less expensive equity and increase their liquidity, also increase their capital based to compete in local and international markets. The stock market should improve listing requirements and reduce unnecessary obstacles, so as to persuade companies to take initiatives of making good use of the stock market. DSE also has a duty of educating their audience to clearly articulate the incentives for listing. Construction companies should seek expertise from various sources including the DSE on their listing requirements. Furthermore the government should formulate a strong policy which will emphasize on listing by companies. Contribution of DSE in the economy of Tanzania is great and development of this stock market depends on the number of listings, and for this case, formulation of policies which reduce listing bureaucracy, and motivate companies to list is important.

Areas for further studies

This study was only limited to finding reasons which hold back construction companies to list in DSE but the number of listings in the bourse is very low therefore there is a need of studying other sectors to discover what lead to low number of listings in the bourse. The study was also focused on contractors located in Dar es Salaam city only, because of time and budget constraints, but `the study may be carried out in the whole country to persuade companies in other regions to participate in stock exchange activities.

REFERENCES

Abor, J., and Biekpe, N. (2005). What determines the Capital Structure of Ghanaian Firms. *African Finance Journal*, *7 (1)*, 37–48.

Belo, F., Lin, X., and Yang, F. (2014). External Equity Financing Shocks, Financial Flows, and Asset Prices. *Manuscript*.

BoT. (2015). *Annual Report 2014/2015*.

Cassar, G., and Holmes, S. (2003). Capital Structure and Financing of SMEs: Australian Evidence. *Accounting and Finance*, *43(2)*, 123–147.

CRB. (2015). *Annual Consultative Meeting Capacity and Competence of Contractors (A Key to Sustainable Infrastructure Development) CRB List of Contracting Firms*. Dar es Salaam.

DSE. (2011). Handbook for Dar Es Salaam Stock Exchange, *1*(March), 1–188.

DSE. (2016). *Dar es Salaam Stock Exchange Plc Prospectus; Notice to Foreign Shareholders*.

Frank, M. Z., and Goyal, V. K. (2007). Trade-Off and Pecking Order Theories of Debt. *Handbook of Empirical Corporate Finance SET*, *1*, 135–202.

Gregory, B. T., Rutherford, M. W., Oswald, S., and Gardiner, L. (2005). An Empirical Investigation of the Growth Cycle Theory of Small Firm Financing. *Journal of Small Business Management*, *43(4)*(382–392).

Jensen, M. C., & Meckling,W. H. (1976). Theory of the firm: Managerial behavior, agency costs and ownership structure. *Journal of Financial Economics*, *3*, 305–360.

Kiboi, T., W. (2012). *A Cross-Sectional Analysis of the Factors Influencing Company Listings on the Nairobi Securties Exchange.* (Unpublished MBA Project). Nairobi.

Massele, J., Darroux, C., Jonathan, H., and Fengju, X. (2013). Challenges Faced by Dar-es-Salaam Stock Exchange Market in Tanzania, *4*(15), 36–43.

McMahon, Forsaith, D., and Richard, G. (2001). *Equity Financing Patterns Amongst Australian Manufacturing SMEs, The Flinders University of South Australia* (02-6 ISSN).

Messah, O. B. (2011). Reasons for Low Listing by Agricultural Companies in the Bourse: A Case Study of Del Monte Limited Kenya. *Research Journal of Finance and Accounting*, *2*(3), 56–70.

Ministry of Works. (2003). *Construction Industry Policy*. Dar es Salaam.

Myers, S. C., and Majluf, N. S. (1984). Corporate Financing and Investment Decisions when Firms have Information that Investors Don't Have. *Journal of Financial Economics*, *13*(2), 187–221.

Ngugi, W., and Njiru, R. (2005). *Growth of the Nairobi Stock Exchange Primary Market*. Nairobi.

Pastusiak, R., Bolek, M., Malaczewski, M., and Kacprzyk, M. (2016). Company Profitability Before and After IPO. Is it a Windows Dressing or Equity Dilution Effect? *Prague Economic Papers*, *25*(1), 1–13.

Saunders, M., Lewis, P., and Thornhill, A. (2009). *Research Methods for Business Students* (5th ed.). Pearson Education Limited.

Thomas E., Copeland F., and Shastri K. (2014). *Financial Theory and Corporate Policy* (4th ed.). Pearson Education Ltd.

UNESCO. (2010). *Construction A vibrant industry*.

URT. (2003). Tanzania SME Development Policy 2003, (November).

URT. (2015). *The United Republic of Tanzania Ministry of Finance Government Budget for financial year 2015/16*.

Yartey C. (2005). Stock Market Development, Corporate Finance and Economic Growth in Africa. PhD Thesis, Cambrige: Faculty of Economics.