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To List or Not to: Why Do Companies Deny Financing through Capital Market in Bangladesh?

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Abstract

This study aims at figuring out the key reasons responsible for inhibiting companies to go for IPO. For the purpose, 100 privately listed companies situated in Dhaka had been approached and 15 companies responded. To substantiate the views of the companies, interviews from academician, merchant bank authorities, capital market journalist forum, and regulators were taken. In total, 25 Key Informant Interviews (KIIs) were conducted for the study. A focus group discussion (FGD) was arranged consisting 30 representatives from different merchant banks. To present the findings of the study, a thematic analysis approach was chosen where initial codes from the interviews and FGD were transformed and six key themes: macro-environment deterrent, institutional limitations, firm specific barriers, capital market deterrents, corporate governance code 2018, and money market deterrents were identified as the main factors of IPO avoidance by eligible companies. The study revealed that lack of coordination among relevant policy makers, few clauses of corporate governance code 2018, costly and lengthy IPO issuance process, insignificant tax gap, bank's lenience towards loan defaulters, loan rescheduling facility of banks, lack of knowledge regarding capital market products, and compliance related issues are considered the most crucial reasons for IPO avoidance.

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1. Introduction

Bangladesh being on the brink of LDC graduation will require an amount equivalent to USD 26.5 billion to finance its infrastructure and investment needs within 2030. To coalesce this massive amount of funding, banking sector of Bangladesh is showing great support. The interest in stock markets and initial public offerings (IPOs) has grown over the past three decades, despite the fact that the Bangladesh financial system has traditionally been dominated by banking (Bancel and Mittoo 2009; Black and Gilson 1998). Equity market globalization and financial liberalization, as well as political influence, are the main drivers of bank based economy (Bekaert, Harvey, and Lundblad 2005; Moore et al. 2012). However, the characteristics of the banking system allow firms to finance their projects only on short term basis. Under this circumstances, the calling of capital market to be the shield of our fight for this finance is an exigency. Unfortunately, the capital market is not taken under serious consideration neither by the corporations nor by the government itself. Till date, there are 62 merchant banks in Bangladesh. Bangladesh Securities and Exchange Commission (BSEC) has provisioned these banks to bring one IPO in every 2 years to uphold their license. Conspicuously, on an average, only 8-10 IPOs came to our market within the period from 2015 to 2019. Recent empirical research and theoretical discourses have identified many determinants that might have caused companies to remain private and avoiding IPOs in South-Asian countries. However, relatively few empirical studies have been undertaken to explore this issue in Bangladesh. Without major participations of eligible companies in the capital market, Bangladesh's economy will not foster at optimum level. Besides there are so many benefits of coming to the IPO market such as access to large amount of capital, higher turnover, enhanced visibility and prestige, regulatory compliance, access to future financing (Pagano, Panetta, and Zingales 1998). In spite of all these benefits, reluctance of eligible companies towards capital market listing is a matter of concern. This study tried to find out some probable reasons. basis. Under this circumstances, the calling of capital market to be the shield of our fight for this finance is an exigency. Unfortunately, the capital market is not taken under serious consideration neither by the corporations nor by the government itself. Till date, there are 62 merchant banks in Bangladesh. Bangladesh Securities and Exchange Commission (BSEC) has provisioned these banks to bring one IPO in every 2 years to uphold their license. Conspicuously, on an average, only 8-10 IPOs came to our market within the period from 2015 to 2019. Recent empirical research and theoretical discourses have identified many determinants that might have caused companies to remain private and avoiding IPOs in South-Asian countries. However, relatively few empirical studies have been undertaken to explore this issue in Bangladesh. Without major participations of eligible companies in the capital market, Bangladesh's economy will not foster at optimum level. Besides there are so many benefits of coming to the IPO market such as access to large amount of capital, higher turnover, enhanced visibility and prestige, regulatory compliance, access to future financing (Pagano, Panetta, and Zingales 1998). In spite of all these benefits, reluctance of eligible companies towards capital market listing is a matter of concern. This study tried to find out some probable reasons.

2. Literature Review

According to recent academic research, there are numerous factors that affect capital markets and, consequently, decisions about going public or staying private. These factors include general economic conditions, perceptions of financial markets, regulatory restrictions, stock market efficiency, and firm-specific drivers. Investors' sentiment, stock market liquidity condition, predicted industrial conditions, and market timing are considered more serious than the other ones. According to a survey by BDO (Binder Dijker Otte) USA, 45% of the companies that chose not to go public cited regulatory concerns as a major factor in their decision (BDO USA, 2017). According to a study, regulatory burdens, compliance costs, and the complexities of meeting market requirements are factors to consider (Pagano, Roell, & Zechner, 2002).

Some costs, such as underwriting fees, registration fees, the cost of road shows, yearly layout on auditing, certification, and distribution of accounting information, and stock exchange fees, are also being considered in the process of bringing the firm public. Going public is a costly endeavor, and the fees connected with an IPO can be a substantial disincentive for businesses (Ernst & Young, 2016). High cost of issuance and listing deters companies from coming to the capital market of Bangladesh (Business Standard, 22 April 2023). According to a survey by PwC, 45% of US companies cited market conditions as a significant factor in their decision not to go public (PwC, 2018). High initial costs also discourage eligible companies from entering the capital market (Ritter, 1998). Access to finance and control issues are becoming increasingly crucial in the decision to go private rather than continue the firm's public life (Bharath, S. T., & Dittmar, A. K.,2010).

Another element that can influence a company's choice to go public is investor demand. If there is insufficient investor interest, the company may be unable to raise the necessary funds through an IPO. According to a Renaissance Capital analysis, the number of firms going public in the United States fell from 225 in 2014 to 105 in 2016, owing to a lack of investor interest (Renaissance Capital, 2017). Public companies face increased scrutiny and publicity from regulators, investors, and the media, creating reputational risks. Sixty-one percent of companies cited this as a reason for not going public (White & Case, 2018). A study conducted by Adam P. et al. (2018) found that capital market financing is not that much cheaper and flexible compared to bank loans and other sources. Alternative sources of capital, such as venture capital, private equity, and crowd funding, can offer companies more flexible terms than public market offerings and provide more strategic value than an IPO (Choudhary et al., 2017).

Meluzín, T. et al. (2018) surveyed sixty-five chief financial officers (CFOs) at nonpublic and nonfinancial companies in the Czech Republic and Poland that were considered candidates for an IPO. They were polled to determine their proclivity to decline an IPO and retain private ownership. The main arguments against launching an IPO in both countries were information disclosure and decision-making control constraints. Most managers did not consider the capital market as a cheaper and more flexible funding source. Polish CFOs are opportunistic about timing an IPO, valuing the "window of opportunity" more than Czech CFOs. Time and expense constraints were the primary impediments, and lack of confidence in the capital market was a primary concern.

Some reasons were also identified in a study conducted by Uddin (2023). The study was conducted on “why state owned companies are not coming to the IPO?” According to the study, lack of application of the law, negative profitability, fear of company officials, obstacles by directors by post, fear of loss of management control, attitude to avoid regulatory oversight, intention to avoid increased liability, attitude to avoid reporting requirements, revenue concealing tendency, required permissions from various ministries are some of the obstacles to be listed.

In addition to all the factors stated above the disclosure regulations (reporting requirements) imposed by stock exchanges, the debt level of the company, tax benefits issue, and profitability of the companies are some major firm-specific factors (Pagano, Panetta, and Zingales, 1998). Lengthy IPO process also demotivates companies to come to the market. Senior management of companies at Prague Stock Exchange needs to spend a lot of time and effort for completing IPO process (Fontinelle, 2015). Economic downturns or uncertain market conditions are other factors that lead companies to postpone IPOs (Welch, 1996). Besides these, one study found that companies also find alternative funding sources such as private equity, and venture capital more lucrative than capital market financing (Lerner, 1994).

Despite being an important source of capital, the capital market of Bangladesh has not been preferred by many companies. To the best knowledge of the authors, few studies have been conducted to find out the actual reasons why eligible companies are not willing to go public. Moreover, no study used three qualitative approaches together in a single study related to the factors affecting IPO financing of eligible companies. This study aims at finding actual reasons of not coming to the market through a comprehensive approach. This study also provided some recommendations based on the interviews. Thus, it will help policy makers and related stakeholders to take effective decision.

3. Research Objectives

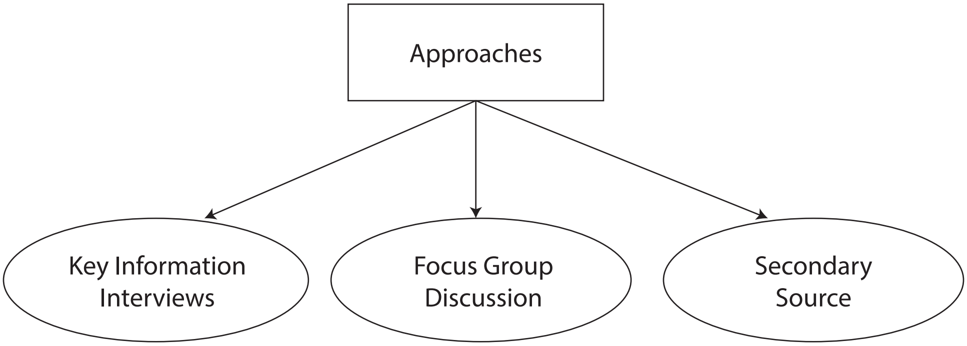
The study focused on two specific objectives:

1. Exploring the factors discouraging eligible companies in financing from the capital market of Bangladesh
2. Identifying and suggesting relevant policies to address the factors that inhibit the companies from listing in the capital market

4. Data and Methodology

This study involves two qualitative approaches – Key Informant Interview (KII) and Focus Group Discussion (FGD) to achieve the objectives of the study. Secondary data source has been also used in this study. As a whole it can be said that total three methods have been used for collecting data (Figure: 01)

Figure 1: Approaches to Research Study



Source: Authors' creation

4.1 Key Informant Interview

Till May 2023, there were 208013 registered public and private limited companies (RJSC website, 2023) in Bangladesh. However, the number of listed companies was only 350 (DSE website, 2023) which is below 1% of total registered companies. This indicates that most of the eligible private companies are not interested to come to the capital market of Bangladesh. The reasons that are truly hindering these companies from coming to the market have not been studied before. This study aims at finding those reasons. Among the 2,04,354 non-listed public limited companies, 100 firms located in Dhaka were mailed and communicated to be as Key Informant Interviewees (KIIs). But only 25 KIIs expressed their interest to participate in the interview process. Among these 25 interviewees, 15 are from different companies and 10 are from different relevant bodies such as Bangladesh Merchant Bankers Association (BMBA), Bangladesh Association of Publicly Listed Companies (BAPLC), Capital Market Journalists' Forum (CMJF), Bangladesh Securities and Exchange Commission (BSEC), University of Dhaka, and different asset management companies. These 10 KIIs were selected for triangulation. Summary of all KIIs is shown in Table 1 and table 2. Some interviews were conducted physically on a specified and mutually agreed-upon day while some were conducted online. The interviews were semi-structured, with a guide offering a flexible framework for exploring the topics of interest. The primary interview questions were "What are the reasons that eligible companies are not coming to the IPO?" and "What recommendations can you provide to encourage new companies to come to the market?"

Table 1: List of Eligible Private Companies Participating in KII

KII Code	KIIs Name	Sector	Capital Size	Age	Main Product
001	Pran RFL	Consumer Goods	27000 crore	41 years	Beverage foods, plastics, healthcare products
002	Lankan Alliance Finance	Financial Institution	100 crore	7 years	Deposits and loan
003	Synesis IT Limited	IT sector	55 crore	15 years	Software
004	Ak Khan Telecom	Telecom	30 crore	11 years	Telecom distribution
005	Agro Organic Limited	Food and Beverage	38 crore	8 years	Food products
006	Dragoni Fashions Limited	Textile	30 crore	39 years	Garment products
007	W & W Company Limited	Pharmaceuticals	50 crore	11 years	Pharmaceutical products
008	Robi Axiata Limited	Telecom	15713 crore	26 years	Mobile Phone Network
009	URO Agrovet Ltd .	Food and Beverage	33 crore	12 years	Poultry foods
010	Global Electrode Ltd.	Engineering	10 crore	5 years	Electrode products
011	Eon Pharmaceutical	Pharmaceuticals	30 crore	13 years	Pharmaceutical products
012	Infinity Technology International Limited	IT sector	30 crore	24 years	IT solution
013	Provaty Hatchery Limited	Food and Allied	10 crore	9 years	Commercial broiler
014	Eon Aquaculture Ltd.	Food and Allied	18 crore	8 years	Fishery items
015	Envirocare International Limited	Service	20 crore	12 years	Services

Source: Authors' creation

Table 2: List of Stakeholders Participating in KIIs (Triangulation)

KII Code	Institution name
016	Bangladesh Merchant Bankers Association
017	Capital Market Journalists' Forum
018	Bangladesh Association of Publicly Listed Companies (BAPLC)
019	University of Dhaka
020	Bangladesh Securities and Exchange Commission
021	Shanta Securities
022	SBI Securities Limited
023	Islami Bank Securities Limited
024	ICB Asset Management Company
025	Mutual Trust Bank Capital

Source: Authors' creation

This study used open ended thematic analysis process to know the reasons of IPO avoidance of eligible private companies consistent with the study conducted by Braun and Clarke (2006). Purposive sampling technique has been used to choose key informant interviewees for the study. Purposive sampling is a frequently used strategy in qualitative research that selects instances that are most likely to be full of information on the topic of interest in order to make the best use of limited resources (Patton, 2002). Some authors suggested that 5-8 interviewee is sufficient when the participants are homogeneous and up to 12-20 participants for non-homogenous group of participants (Crabtree and Miller, 1999). This study assumed that participants are non-homogenous. Therefore, chosen sample size for the interview is 25.

The study tried to maintain ethical protocols. Witten consent from all participants were taken before conducting the interview. They were also informed about their right to withdraw their speech at any time. Their consents were also taken before recording the interview. If the interviewees did not approve for recording, permission was sought to take notes. Interviews are stored on a password protected (encrypted) computer, which includes all data. A limitation of the interview process is that interviewees might not disclose all relevant information.

4.2 Focus Group Discussion

A focus group discussion (FGD) is a qualitative research method that involves a group of individuals coming together to participate in a guided discussion on a specific topic or issue. It is mainly led by a moderator who follows a flexible guideline encouraging comments on particular topic. In FGD, notes are taken and audio recorded to record the discussion which are later transcribed and analyzed for study. A discussion guide was prepared for the study and notes were also taken. The size of the focus group was 30. Participants of the FGD were representatives of different merchant banks. The FGD was held through online platform. CEOs and Managing Directors of different merchant banks were participated in the discussion. The discussion led to constructive comments on the topic studied.

4.3 Secondary Source

Secondary sources generally includes books, research papers, reports, databases, government publications, websites, and more. Different secondary sources have been also used in this study. Newspapers, websites and online sources, published reviews and articles have been used as secondary source of data related to the factors affecting the eligible companies for not coming to the market.

5. Data Analysis

Thematic analysis has been used in this study which required the transcription of interviews recordings and followed coding stages. Transcripts were read and re-read to identify probable themes. In the second stage, initially developed themes were reviewed to maintain the diversity among themes. Factors affecting the IPO avoidance of eligible companies have been categorized under the chosen themes.

5.1 Qualitative analysis of interviews and FGDs

After conducting KIIs, several angles of eligible companies doing business in Bangladesh could be deciphered. Financing strategies of privately held companies, perception of the companies regarding capital market, benefits they are considering before coming to IPO market, and factors of not coming to IPO and recommendations have been identified throughout the process.

5.1.1 Financing strategy of private companies

Financing strategy of the private companies vary depending on the industry, company size, and project characteristics. CFO of a listed company said,

"Financing decision of privately held companies is pretty straightforward since there are few eligible sources in Bangladesh. We came to IPO not for any financing requirement but to cover some strategic commitment".

In terms of financing, almost every interviewee opted for bank and institutional loan either in local currency or in foreign currency. Financing projects from retained earnings and fund provided by the directors are also prominent. Almost all interviewee expressed few exposure to financing through IPO. An incidence was found where bond financing in foreign market was mentioned by an interviewee.

5.1.2 Perception on capital market

When asked regarding the perception on capital market, the tone was cautionary. Interviewees expressed that severe intervention of regulators in free market movement, political involvement in capital market, market manipulation by syndicated influential groups, brook and lenience in monitoring by regulators have caused a severe distrust on the part of the investors. An academician iterated,

"I personally don't think capital market is going to see a good prospect in the near future. It is besieged by issues like floor price, and handful of stalled scripts in movement causing us (investors) to draw out their money to alternate sources."

To reiterate some cautionary comments, CFO of a textile company said,

"Current capital market is not on the correct track. It is not providing any hope to the investors. Textile companies are also not getting proper motivation to stay in the market. "

5.1.3 Benefits offered for coming to IPO

Nasir (2023) contends that listing a group of successful and eligible corporations can have a number of positive effects including a rise in the proportion of high-quality companies, a reduction in the level of market concentration, an improvement in management and financial performance, the creation of a more favorable market environment, the abolition of subpar management techniques, the promotion of transparency and accountability, and an increase in the size and stability of the market. The most important driving forces for private companies to enter the IPO market, according to all Key Informants Interviewed (KIIs), are increased market exposure and visibility, lower corporate tax, benefits in marketing, advertising and brand promotion, increased compliance, and the creation of sizable employment opportunities.

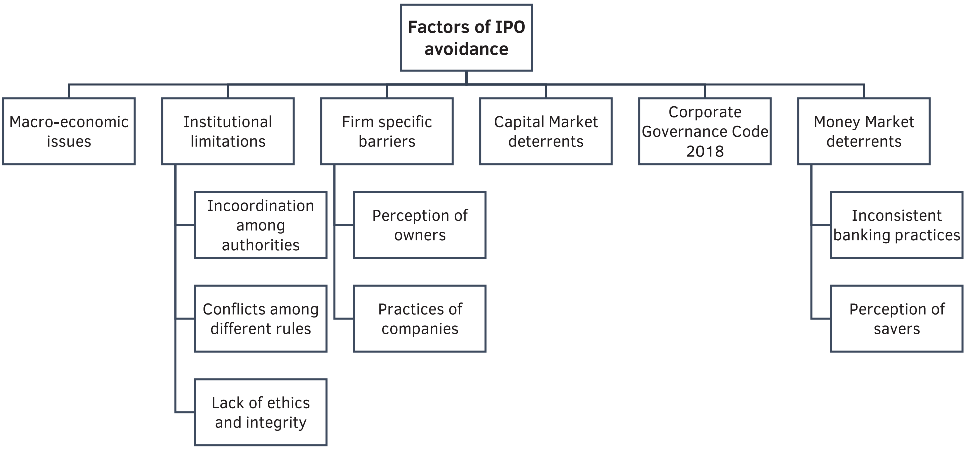
5.1.4 Factors of IPO avoidance by eligible companies

To identify the core factors of IPO avoidance by eligible companies, this study follows the methods of thematic analysis. After translating the initial coding, we concluded on few themes that contributes mostly towards IPO avoidance. Absence of coordination among different regulatory authorities and different relevant ministries seems to be the most fundamental factor calling out reasons for companies to avoid capital market. A company secretary of a private textile company said in interview,

"Recently I had to submit few documents to BSEC for registration. It took me several months to finally submit those. Then after a few days when I was asked to submit the same documents to DSE authorities, I was really surprised seeing there was no coordination among the two authorities. "

Figure 1 shows the overall factors of IPO avoidances illustrating that factors related to capital market and money market are presenting major hindrance.

Figure 2: Overall factors of IPO avoidances by eligible private companies



Source: Authors' creation

i. Macroeconomic issues

From the KIIs, it was found that, as an exogenous effect, macroeconomic factors like recent bearish trend, foreign exchange volatility, financial illiteracy regarding products of capital markets, being a highly bank based economy have been influencing factors for companies to think twice before coming to the market. From demand side analysis, lack of product variety, political influence in market manipulation, culture of loan default, presence of lower number of institutional investors are also causing an impasse for companies to come to IPO financing.

Lack of trust on AMCs has brought a domino effect on both issuers and investors' distrust on the market participants. A Chief Investment Officer of an AMC said,

"Asset management companies (AMCs) also contributed to the cause of lower participation of eligible companies in capital market. The large scale fraudulent activities by several AMCs have created a distrust among the investors to invest in Mutual Funds and to invest in companies coming to IPO."

ii. Institutional Factors

Several institutions- merchant banks, AMC, NBR, BSEC, RJSC- come into play while bringing a company into the capital market. However, in Bangladesh capital market, the presence of coordinated institutional efforts is little to none. KII 016 said,

"There is lack of cooperation from NBR in removing the double taxation policy and increasing tax gap of listed companies in spite of our reiteration of policy recommendations to NBR. We have suggested to increase the current tax gap for listed companies to at least 15%".

Merchant banks have also showed their inertia in coming forward to bring good companies into the capital market due to the undue pressure of due diligence that needs to be conducted by these banks when there is no structural framework present to distinguish good companies from bad companies. A CEO of a renowned government owned merchant bank expressed that,

"I have to sign at least 1000 pages to get the documents ready to submit to BSEC in the process of getting a company listed. We get so hovered around on this process that sometimes it's difficult to track any inconsistencies in the cornucopia of documents".

iii. Firm specific deterrents

The study finds that mainly two types of company specific factors are contributing to IPO avoidance by eligible companies. A. the presence of family business companies and B. the sneaky and shallow practices of companies.

Khan, Muttakin, and Siddiqui (2015) found that about seventy percent of the top performing companies listed on DSE were family businesses manifesting the dominance of family business companies in Bangladesh. From the KIIs, the study finds that in Bangladesh family businesses want to withhold information within the company instead of disclosing them. These companies do not want to dilute their ownership proportion to outside investors and plan to go for private family succession of the governing body. The inertia of owners along with their condescending and overbearing attitude is the most common response found from the interview. The interviewees emphasized another factor- the apprehension among small companies about receiving an unjust value in the secondary market attributed to market manipulation and herd behavior.

Moreover, shallow practices of companies also motivate companies to stay private. From the KIIs, we have found that companies tend to hide poor performance, avoid tax by settling trades in cash and over-invoicing, wish to pay unquestionable higher compensation to its BODs and manage their books of accounts poorly. KII 018 expressed,

"I am the entrepreneur and I have created this huge business on my own capabilities and my family support. Now, if I wish to provide any amount of pay check to my grandchild for working as the CEO of my company, of course that person must deserve that. I would not like any interference on that issue."

iv. Capital market deterrents

To begin with detailed factors related to

capital market, lengthy and costly IPO process is cited to be the most common reason. A CFO of an eligible FMCG company revealed,

"We get shivering in the names of regulators since many regulators don't play fair. Compliance with different regulators are cumbersome since none of the regulators are aligned. This increase our cost of fund proportionately".

Moreover, previously there was a rule for bringing multinational companies into the market but it was eliminated after few years. Since there is no obligatory rules to get listed and no special incentives are offered to them by the BSEC as well, it gets difficult to bring these companies into the market. From the FGD of all merchant bankers, the urgent call for a mandatory rule for company listing has been set forth. Last but not the least, absence of consistent bond issuance policies is another factor that every interviewee mentioned, discouraging them to consider the option of IPO financing.

v. Deterrents in corporate governance code (CGC) 2018

Corporate governance code entails all the rules and obligations that a company must follow after listing in the capital market. Corporate governance code 2006 was revised in 2018 and since then it has adopted sixty two new clauses along with modification of twenty eight clauses. Total 104 clauses and conditions are needed to be followed by companies according to this reform (Bala, 2018).

There are three types of corporate governance model in the world: Anglo American, Japanese, and German model. Anglo American model is mainly used in countries where there is less family owned firms and shareholding structure is diffused (Bobillo et. al., 2018). The CGC 2018 that we have adopted is mainly following the Anglo American model. Most of the interviewees mentioned this as a serious concern since most of the eligible companies are family run, with concentrated ownership structure and first generation business among others. Mukherjee-Reed (2002) argues that adoption of Anglo- American model in CGC of India was only the result of international economic and political pressure and it had little economic impact on company performance.

From the interviewees and FGD discussion, several points of the CGC 2018 was found to be the reasons of companies avoiding IPO. To begin with, redundant and inconsistent disclosure requirements disclosing company's competitive information is a big hindrance and tether for private companies to go public. KII 018 said that,

"Including information regarding COGS of the business under the 'business analysis' part of the Management discussion and Analysis is absurd for me. Disclosing it will definitely reduce my competitiveness in the market.

Additionally, publishing Price Sensitive Information (PSI) in newspaper and submitting quarterly and annual reports in printed hard copy instead of online publication is definitely adding to the cost of coming to the capital market for financing. Moreover, appointing independent director as chair of Nomination and Remuneration Committee, appointment of different CEOs for each subsidiary companies, and the provision of CEO, CFO, Company Secretary and Head of Internal Audit and Compliance (HIAC) being incumbent to only one executive position at a time is causing companies to bear a huge cost for coming to IPO. KII 018 told us during the interview,

"I am running my group of companies with only one group CEO for more than one decade without any difficulties. Now suddenly they are saying that we need to hire separate CEOs for each subsidiaries. I would have agreed to hire separate CEOs if I had seen that I cannot hold the position of group CEO efficiently. This rule is nothing but an extra burden that small companies have to bear."

vi. Money Market deterrents

KII 020 said,

"Bangladesh Bank and all primary dealer banks are considered to have superior power over BSEC since all government budget deficit is mostly financed by them".

To substantiate, while taking loan having less disclosure requirement compared to capital market, loan rescheduling facility, lack of punishments in case of default, availability of long term financing of industrial projects have made easier for eligible companies to avail their financing schemes. In addition to that, founders and owners of these companies have more knowledge and more trust on money market products compared to capital market products.

6. Factor Response Analysis

After analyzing the initial codes and themes from the interviews, it is evident that few of the reasons of not coming to IPO is more frequently addressed by the representative of the companies. Almost every interviewee addresses the issue of not having proper coordination among different regulators. Representative of Capital Market Journalists' Forum of Bangladesh expressed, *"I really want to see a national level committee where BSEC, Bangladesh Bank, IDRA, MRA, DSE, CSE, BMBA and relevant ministries of the government will participate and make coherent policies for the development of this market".* Table 3 and Figure 3 shows the frequency table of responses of interviewees regarding all other macroeconomic reasons of not coming to IPO by eligible companies.

Table 3: Frequency table of responses for macroeconomic factors

Macro Factors	Frequency	Percentage
a) Lower number of institutional investors	**22**	88%
b) Lack of trust on AMCs	**22**	88%
c) Loan default culture	**22**	88%
d) Bearish market	12	48%
e) Foreign exchange volatility	11	44%
f) Political influence	**17**	68%
g) Bank based economy	**19**	76%
h) Lack of knowledge regarding financial market and products	**9**	36%
i) Lack of product variety	**15**	60%

Source: Authors' creation

Figure 3: Responses for macro-economic factors

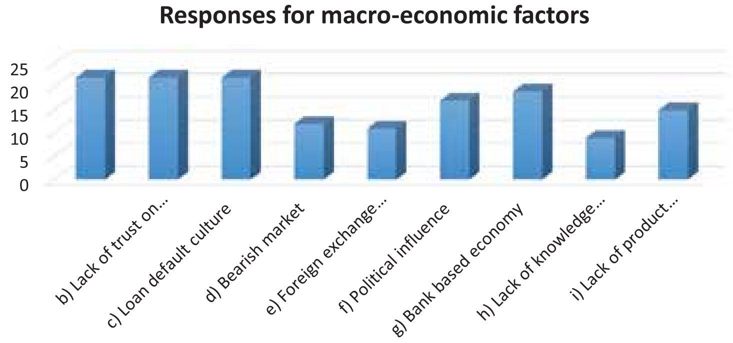


Table 4 and Figure 4 shows the frequency and percentage of responses of interviewees showing their views on factors related to institutional factors as deterrent of coming to IPO. Lack of coordination among regulators, insignificant tax gap, and double taxation policy were considered the most discussed factors. Other factors are also equally mentioned since almost every factor was discussed by every other interviewee.

Table 4: Frequency table of response for institutional factors

Institutional Factors	Frequency	Percentage
a) Lack of coordination among policy makers	24	96%
b) Double taxation policy and lowertax gap	24	96%
c) Conflict in lawregarding ownership proportion of BODs	16	64%
d) Absence of automation in due diligence process felt by merchant bankers	12	48%
e) Absence of structural framework to evaluate good companies	10	40%
f) Lack of ethics and integrity among stakeholders	15	60%

Source: Authors' creation

Figure 4: Response for institutional factors

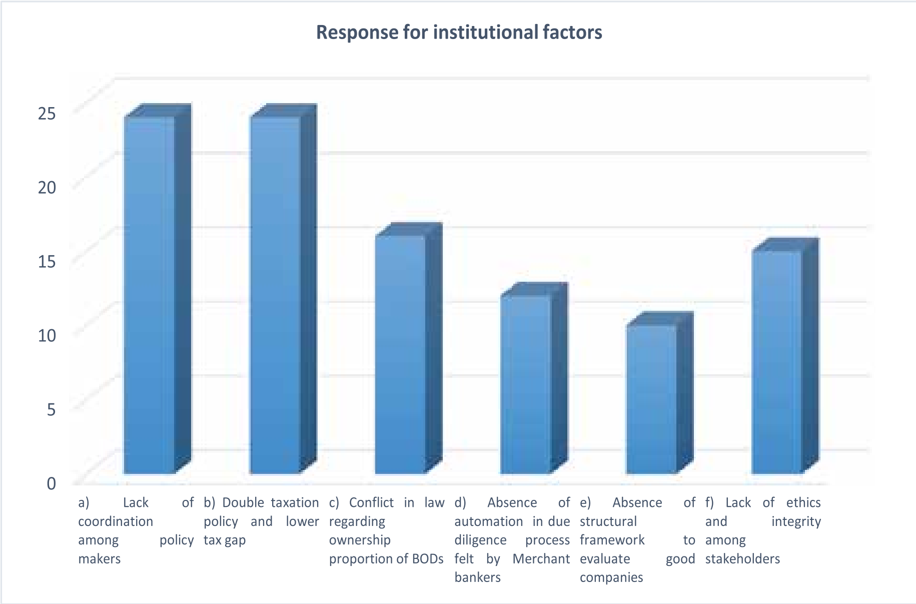


Table 5 and Figure 5 shows the frequency and percentage of responses of interviewees showing their views on factors related to company specific factors as deterrent of coming to IPO. Since majority of the private eligible companies in Bangladesh are family businesses, these factors got the highest frequency in terms of being the factor of IPO avoidance by the companies.

Table 5: Frequency table of response for firm specific factors

Firm Specific Factors	Frequency	Percentage
Family businesses:		
a) Unwillingness to disclose sensitive information	19	76%
b) Wishing to retain ownership undiluted	19	76%
c) Private succession plan	18	72%
e) Fear of not getting expected value in the capital market	15	60%
Practices of companies:		
f) Hiding poor performance of companies	22	88%
g) Willingness to pay unquestionable higher compensation packages to its BODs	17	68%
h) Poor management of books of accounts	15	60%
i) Indulgence in avoiding tax by cash settlement of trades	12	48%

Source: Authors' creation

Figure 5: Response for Firm Specific Factors

Table 6 and Figure 6 shows the frequency and percentage of responses of interviewees showing their views on factors related to capital market as deterrent of coming to IPO. Lengthy and costly IPO process is the most mentioned factor related to capital market. Absence of no mandatory rules for companies to get listed is the second most discussed reason of IPO avoidance by the companies. Other factors are also equally mentioned since almost every factor was discussed by every other interviewee.

Table 6: Frequency table of response for capital market related factors

Capital Market deterrents	Frequency	Percentage
a) Lengthy and costly IPO process	24	96%
b) No mandatory rules for company listing	23	92%
c) Frequent changes of rules: imposing floor price	20	80%
d) Lack of specialized and customized incentives offered	20	80%
e) No consistent bond issuance policies	18	72%

Source: Authors' creation

Figure 6: Response for Capital Market Related Factors

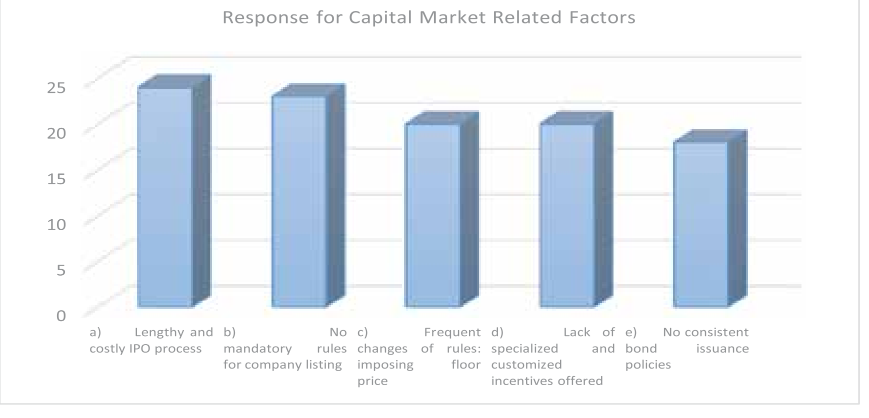


Table 7 and Figure 7 displays the frequency and percentage of respondents' thoughts on factors relating to the corporate governance code 2018 that discourages companies to come to an IPO. Most of the interviewees pointed that the copying of Anglo American corporate governance model is not suitable rather harmful for family business companies in Bangladesh. They also iterated that new corporate governance code 2018 is adding to its existing cost of coming to IPO even more.

Table 7: Frequency table of response for corporate governance code deterrents

Corporate Governance Code deterrents	Frequency	Percentage
a) Increasing cost due to appointment of different CEOs for each subsidiary companies	12	48%
b) Copying of Anglo American Corporate Governance model does not match with the family business oriented companies of Bangladesh	10	40%
c) Publishing Price sensitive information in newspaper and submitting quarterly and annual reports in printed hard copy instead of online publication	10	40%
d) Appointing independent director as chair of Nomination and Remuneration Committee	9	36%
e) CEO, CFO, HIAC, and CS cannot hold any executive position in any other organization	6	24%

Source: Authors' creation

Figure 7: Response for Corporate Governance Code Deterrents

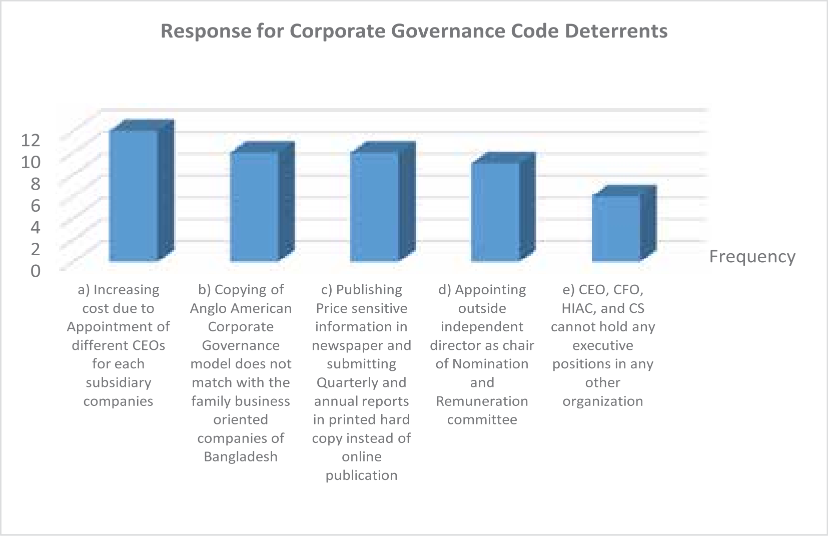


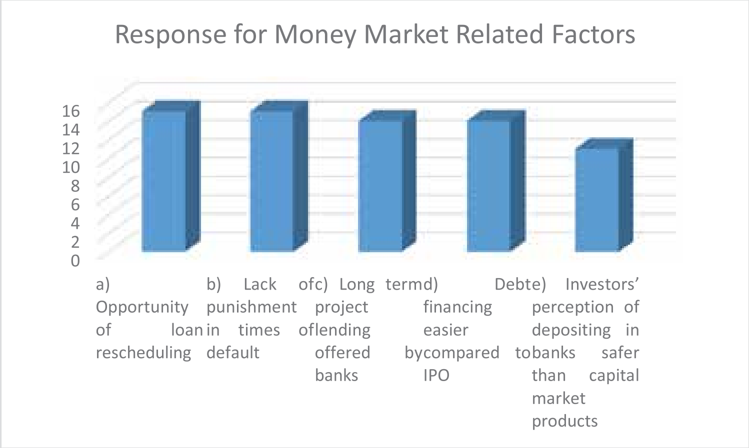
Table 8 and Figure 8 displays the frequency and percentage of respondents' thoughts on factors relating to the money market that discourages coming to an IPO. Most of the interviewees pointed that the friendly loan rescheduling facility provided by banks and absence of any ironclad punishment in times of default allowed eligible companies to consider bank financing an easy gateway to financing compared to running through the stringent rigorous IPO process.

Table 8: Frequency table of response for money market related factors

Money market related Factors	Frequency	Percentage
a) Opportunity ofoan rescheduling	15	60%
b) Lack of punishment in times of default	15	60%
c) Long term project lending offered by banks	14	56%
d) Debt financing easier compared to IPO	14	56%
e) Investors' perception of depositing in banks safer than capital market products	11	44%

Source: Authors' creation

Figure 8: Response for Money Market Related Factors



7. Findings of the Study

This study has found companies' perceptions about capital market in terms of financing and what factors are actually deterring them from getting listed in the capital market. Perceptions of the capital market are cautious, with interviewees expressing concerns about regulatory intervention, political influence, market manipulation, and inadequate monitoring, leading to a pervasive distrust among investors. A notable sentiment from a textile company CFO underscores a lack of motivation for textile companies to engage with the current state of the capital market.

On the positive side, the study identifies various benefits of going public, such as increased market exposure, visibility, lower corporate tax, marketing advantages, brand promotion, enhanced compliance, and the creation of substantial employment opportunities.

The study also delves into factors contributing to the avoidance of IPOs by eligible companies. Macroeconomic issues, institutional factors like lack of coordination among regulators and taxation policies, firm-specific deterrents including family businesses' reluctance to disclose information and engage in IPOs, capital market-related obstacles such as a lengthy and costly IPO process, and concerns about the corporate governance code's impact are identified as key contributors.

In response to these findings, interviewees consistently advocate for improved coordination among regulators and the establishment of a national-level committee to formulate coherent policies for market development. The frequency analysis highlights specific macro-economic concerns, emphasizing a bearish market, foreign exchange volatility, political influence, a bank-based economy, and trust issues with asset management companies (AMCs).

In conclusion, the study offers valuable insights into the multifaceted dynamics influencing private companies' financing decisions in Bangladesh, shedding light on both the advantages and obstacles associated with entering the IPO market. These findings hold implications for policymakers, regulators, and market participants seeking to enhance the robustness and attractiveness of the capital market ecosystem.

8. Recommendation

The interviewees and participants of the focus group discussion were also asked to provide their recommendations on removing institutional barriers and facilitating the entry of eligible companies into the market. A significant emphasis was placed on enhancing coordination among the various regulatory bodies overseeing the market. One suggestion put forward was the establishment of a team comprising representatives from each regulatory body. This team will work together to ensure that all market policies are aligned and do not contradict one another. Such coordination would greatly facilitate the smooth operation of both the money market and capital market. CFO of a reputed multinational finance company said,

"For building a stable and vibrant capital market, there is no alternative to united regulatory body. In this perspective, the ministry of finance can play a vital role to bring all the regulatory bodies together".

Furthermore, the Bangladesh Securities and Exchange Commission (BSEC) can

develop a comprehensive checklist to identify companies eligible for initial public offerings (IPOs), which can then be adopted by merchant banks. This will streamline the due diligence process for banks, enabling them to bring quality companies to the market.

Limiting banks' role on disbursing long term loan is also required to bring new companies to the market. Maximum companies are still dependent on bank based funding. But practically banks should be limiting their exposure to short term fund. Deviation of this rule may increase NPL (Non-Performing Loan) of banking sector of the country that, in turn, is not good for the economy of the country. *The loan rescheduling policy requires certain modifications. Initially, individuals or entities with loans amounting to 500 crore taka or more should not be allowed more than 5 years to repay their debts after availing the rescheduling option. Furthermore, the maximum number of times a loan can be rescheduled should be reduced from four times to three times.* According to a key informant interviewee:

"Companies get loan from banks easily without any hassle. They lack awareness regarding capital market of the country. A culture need to be developed to raise long term fund from the capital market rather than the money market".

The majority of businesses in Bangladesh are primarily family-owned, and these companies desire greater autonomy in conducting their operations without being hindered by inconsistent regulations outlined in the Corporate Governance Code of 2018. Based on interviews conducted, some amendments to certain aspects of the corporate governance code have been suggested to facilitate the entry of these companies into the market. *To begin with, it has been proposed that adopting a blended Anglo-American corporate governance model, similar to that of Japan, would be more suitable for family-focused companies. Additionally, there is a suggestion to exclude the disclosure of "cost of raw materials" in order to protect the competitive information of companies. Moreover, in the case of group of companies, there could be a relaxation in the requirement of appointing separate CEOs for each subsidiary.*

Lastly, it has been found from the study that the nomination and remuneration committee be chaired by founding directors instead of an independent director.

The majority of interviewees have put forth several recommendations to address deterrents in the capital market. Firstly, companies could be offered tailored incentives, such as higher tax gaps, accelerated depreciation rates, and exemption from dividend payments during the initial years, to encourage their participation in the market. Each company may respond differently to specific incentives, thus necessitating the regulatory body's focus on identifying and devising customized incentive plans to attract companies to the capital market.

Secondly, Current IPO process is lengthy and obscure. It demotivates companies for coming to the market. Assistant Professor of a reputed public university said *"By this time, companies can get required capital from bank easily. Companies do not find trust with the process. Even Pakistan has started E-IPO that saves a lot of time. Our country should also introduce E-IPO and Shelf-Registration." If the process can be made short and transparent it will encourage companies more to come to the market rather than going to the money market Moreover, the absence of sovereign bonds in Bangladesh's capital market has been highlighted, and the interviewees recommend that the government consider issuing sovereign bonds as a means of raising deficit financing instead of relying solely on bank loans. Furthermore, the reintroduction and reinforcement of the previous law mandating the obligatory listing of multinational corporations (MNCs) can be considered, with a specific threshold of paid capital beyond which companies must be listed on the capital market.*

Lastly, enhancing the branding and promotion of the capital market in Bangladesh is deemed crucial. Increased awareness regarding the capital market should be fostered among companies and investors to invigorate the market. Two organizations, the Bangladesh Institute of Capital Market (BICM) and the Bangladesh Academy for Securities Markets (BASM), have been working towards this goal since their inception. These organizations can play a pivotal role in disseminating knowledge about the capital market among investors and non-listed companies in Bangladesh.

9. Conclusion

There are less than 1% registered companies listed in DSE creating a debatable question of why eligible companies are avoiding IPO financing. To find the answer to this question, this study has opted for an explorative approach by taking KIIs from eligible companies and other stakeholders. A focus group discussion was also arranged for the study. Macro-environment deterrent, institutional limitations, firm specific barriers, capital market deterrents, few clauses of corporate governance code 2018 and money market deterrents had been identified as major factors affecting companies' intention of coming to the market Macroeconomic deterrent: lack of coordination among authorities of financial markets, Capital market deterrent: Lengthy IPO process and lower tax gap, and money market deterrent: ubiquitous presence of banks and banking irregularities were considered the most crucial reasons of IPO avoidance. To tackle these issues, several recommendations were gathered from the KIIs and FGD. Among them, the most prominent suggestions would be to creating a unified regulatory committee, reforming banking guidelines on distributing industrial loan, introducing sovereign bond, reinforcing the previous rule of mandatory listing of eligible companies and raising awareness about capital markets among the companies and investors. Overall, a cohort and concerted approach is needed to bring more companies into the market.

However, due to the sensitivity of the topic, the study may miss some specifics. Many players, particularly the regulatory agency and representatives of eligible enterprises, were hesitant to speak on the sensitive subject. Furthermore, the study can be improved by stronger collaboration and doing a survey of investors. More interviews and focus groups could greatly improve the study.

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Appendix 1: Content of Figures