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**INITIAL PUBLIC OFFERING (IPO) READINESS IN ETHIOPIA: ASSESSING REGULATORY
FRAMEWORK, CORPORATE GOVERNANCE, FINANCIAL LITERACY &
TECHNOLOGICAL CHALLENGES**

COLLEGE OF BUSINESS AND ECONOMICS

DEPARTMENT OF ACCOUNTING AND FINANCE

A THESIS SUBMITTED TO THE DEPARTMENT OF ACCOUNTING AND FINANCE

IN PARTIAL FULFILLMENT FOR THE REQUIREMENTS OF THE DEGREE OF MASTER OF SCIENCE IN
CORPORATE FINANCE WITH THE SPECIALITY OF INVESTMENT MANAGEMENT

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MAY, 2025

ADDIS ABABA, ETHIOPIA

STATEMENT OF DECLARATION

I, Mohammed Ahmed, declare that this thesis entitled as **“Initial Public Offering (IPO): Readiness in Ethiopia: Assessing Regulatory Framework, Corporate Governance, Financial Literacy, and Technological Barriers”** is my own work. I have carried out independently the research thesis work with the guidance and support of my advisor. It was done for the partial requirement of the Award of Master of Science Degree in Corporate Finance with Specialty of Investment Management.

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This is to certify that the thesis entitled “**Initial Public Offering (IPO): Readiness in Ethiopia: Assessing Regulatory Framework, Corporate Governance, Financial Literacy, and Technological Barriers**” submitted to Addis Ababa University, school of commerce, for the award of Degree of Masters of Science in corporate finance specialty in investment management is a bona-fide work that has been carried out by **Mohammed Ahmed** under my guidance and supervision.

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Final approval and acceptance of the thesis is contingent upon the submission of the final copy of the thesis to the Council of Graduate Studies (CGS) through the Departmental Graduate Committee (DGC) of the candidate’s major department. I hereby certify that I have read this thesis prepared under my direction and recommend that it be accepted as fulfilling the thesis requirement.

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ACKNOWLEDGEMENT

First of all I would like to thank the almighty Allah who led me through all the rough and difficult times and gave me the strength and encouragement to complete this study. With the deepest gratitude, I want to express my very profound gratitude for my Advisor Dr. Dakito Alemu who has assisted me in every step of the thesis. His guidance helped me in all the time of the research and writing of this thesis. I cannot express enough thanks to my family for their continued support and encouragement. Special thanks go to my wife Semira Jibril, for providing me with unfailing support and continuous encouragement throughout the thesis. This accomplishment would not have been possible without you.

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LIST OF ABBREVIATIONS AND ACRONYMS

ADB	African Development Bank
ACGN	African Corporate Governance Network
ASEA	African Securities Exchange Association
CFO	Chief Financial Officer
CEO	Chief Executive Officer
CGP	Corporate Governance Practice
ECMA	Ethiopian Capital Market Authority
EDGAR	Electronic Data Gathering Analysis Retrieval
ESG	Environmental Social Governance
ESX	Ethiopian Securities Exchange
FSCA	Financial Sector Conduct Authority
FCA	Financial Conduct Authority
FL	Financial Literacy
FTSE	Financial Time Stock Exchange
GAAP	General Accepted Accounting Principle
GDP	Gross Domestic Product
GDPR	General Data Protection Regulation
IMF	International Monetary Fund
IPO	Initial Public Offering
IOSCO	International Organization Securities Commission
IFRS	International Financial Reporting Standard
JSE	Johannesburg Stock Exchange

LRF	Legal Regulatory Framework
MOFED	Ministry Of Finance and Economic Development
MOT	Ministry Of Trade
NBE	National Bank of Ethiopia
NYSE	New York Stock Exchange
NASDAQ	National Association Securities Dealer Automated Quotation
OECD	Organization for Economic Co-operation and Development
OLS	Ordinary Least Square
OTC	Over The Counter
SEC	Securities Exchange Commission
SPAC	Special Purpose Acquisition Company
SPSS	Statistical Package for Social Science
TB	Technological Barrier
TSE	Tunis Stock Exchange

ABSTRACT

This study investigates the IPO (Initial Public Offering) readiness of companies in Ethiopia, focusing on the regulatory framework, corporate governance practices, financial literacy levels, and technological barriers that may impact their ability to successfully undertake an IPO. Employing a mixed-methods approach, the research combines quantitative data collected through questionnaires and analyzed using descriptive statistics (frequency distributions, percentages, means, and standard deviations) in SPSS 20, with qualitative data gathered from semi-structured interviews. The target population comprises Chief Finance Officers (CFOs), Chief Executive Officers (CEOs), General Managers, Deputy General Managers, Finance Managers, and Chief Accountants from selected large taxpayer share companies and private limited companies within the manufacturing, banking, and insurance sectors in Ethiopia. A stratified random sampling technique, using Yamane's formula, was used to determine a sample size of 129 respondents. Primary data was collected through questionnaires with both open and closed-ended questions, and face-to-face interviews. Secondary data was obtained from sources such as the National Bank of Ethiopia, the Capital Market Authority, academic journals, and relevant financial proclamations and policies. The result of this study revealed the lack of compliance with international IPO standards, insufficient transparency in financial disclosure, weak investor protection mechanisms, lack of independent oversight on board of directors, limited understanding of investment process among potential investors, insufficient education on risk and benefit of IPOs, lack of integration between technological platforms used in the IPO process, cyber security concerns that jeopardize sensitive information. The study recommended regulatory reform, enhancing corporate governance, improving financial literacy, addressing technological barrier and strengthening the IPO ecosystem. The research contributes to the understanding of factors influencing IPO decisions in emerging economies and provides practical guidance for companies considering going public in Ethiopia

Keyword: IPO, Ethiopia, Regulatory framework, Corporate Governance, Financial Literacy and Technological Barrier.

CHAPTER ONE

1. INTRODUCTION

An Initial Public Offering (IPO) is a significant financial event that enables private companies to offer their shares of the company to the public and further go public "go public". IPOs are a significant worldwide activity in assisting corporations to generate funds, gain market exposure, and liquidate their minority investors' capital. In matured markets, such as the U.S. and Europe, IPOs thrive under the support of sound laws, mature financial infrastructure and investor confidence. For instance, in 2021, the U.S. IPO market enjoyed a growth spurt, raising more than \$155 billion, which is evidence of resilience and attractiveness of public markets, in the face of macroeconomic turbulence (PwC, 2021). Yet there remain problems, such as market fluctuation and complex laws, which can hinder the IPO of smaller companies.

In Africa, the IPO market is slowly developing yet is still nascent compared to other markets. The continent faces challenges such as underdeveloped financial systems, few investors, and regulatory problems, which create barriers for companies wanting to go public. However, there have been some successful IPOs` in several African countries (e.g., South Africa, Nigeria and Kenya), particularly within the telecommunication, banking and energy sectors. The Johannesburg Stock Exchange (JSE) has now emerged as a flagship platform for IPOs in Sub-Saharan Africa, with Vodacom and MTN example now using the JSE to get capital and expand (African Financials, 2020). However, for many African companies, the challenges and costs associated with going public lead them to opt for private equity and/or debt financing over going public.

In Ethiopia, the IPO market is still at its infancy, as the country is characterized by a lack of capital markets and regulatory infrastructure. The Ethiopian Securities Exchange (ESX) launched in 2023 is a significant move towards developing a thriving capital market. However, issues like low investor awareness, weak corporate governance, and lack of support still make it difficult for companies to prepare for IPOs. Even with those difficulties, the burgeoning Ethiopian economy and the continuing reforms have a lot of excitement potential, particularly in agriculture, manufacturing, and telecommunications. For example, privatization of the state-

controlled enterprises such as Ethio Telecom could generate IPOs and attract local and foreign investors World Bank, (2022). The growth and development of capital markets in Ethiopia are indispensable to effectively utilizing Initial Public Offerings (IPOs) for stimulating economic growth and corporate expansion in the future.

The legal and regulatory environment surrounding Initial Public Offerings (IPOs) is critical to achieve transparency, investor protection, and market efficiency. In industrialized countries such as the USA, legislations or rules regarding the accounting and corporate governance at the Securities and Exchange Commission (SEC), for example, impose stringent going concern standards for financial reporting. These regulations help reduce information gaps and build investor trust, which are essential for successful IPOs Sejjaka, (2011). In Europe, the Prospectus Regulation (EU 2017/1129) homogenizes the IPO requirements of its member states, which ensures that companies maintain transparency and completeness when providing information to investors. These international frameworks emphasize the importance of robust regulatory supervision to preserve trust and stability in capital markets Ahmed, Fathy, Samak, (2022).

There is significant variation across African countries in the rules regarding IPOs, which can be attributed to differences in market sophistication and institutional infrastructure. South Africa has an effective regulatory framework overseen by the Financial Sector Conduct Authority (FSCA) and the Johannesburg Stock Exchange (JSE), both of which impose stringent listing and governance requirements. However, many African nations, like Uganda and Kenya, face challenges such as weak financial infrastructure and low investor awareness. For example, partly because of lack of disclosure requirements and areas of board control weakness in Uganda, companies find it difficult to prepare for IPO Sejjaka, (2011). However, these challenges are being addressed and regulations are being improved across the continent, through for instance, an initiative of the African Securities Exchanges Association (ASEA) promoting best practices and collaboration African Financials, (2020).

In Ethiopia the regulatory conditions for IPOs are still under construction. The Ethiopian Capital Market Authority (ECMA), created in 2021, is an important indicator in the development of a formal capital market. The ECMA has laid down rules for IPOs, incorporating regulations covering public offerings and investor protection ECMA, (2023). Despite this, certain issues continue, including lack of institutional ability and enforcement. In the past, the absence of a

robust legal framework has been a source of fraud and therefore underlines the need for improved regulatory control Ethiopian Capital Market, (2024). To overcome these challenges the ECMA has launched programs such as the IPO Clinic that provides technical assistance along with training for companies who wish to go public. These work targets the enhancement of IPO preparation as well as the transparency and effectiveness of the Ethiopian capital market ECMA, (2023).

Corporate governance is an important matter in preparing for IPOs, because of its contribution to transparency, accountability, and investor trust. In industrialized countries, e.g., the US and Europe, (coherent with Sarbanes-Oxley Act (2002) and OECD Principles of Corporate Governance (2015), companies are obliged to present financial information openly, there must be independent boards of companies and they need to be monitored by stakeholders. These rules also foster greater board diversity, strong audit committees, and executive compensation commensurate with long-term performance. For instance, major tech companies such as Apple and Microsoft rely on independent directors and robust internal controls to foster investor confidence Faster Capital, (2023). These procedures also mitigate the risks of fraud and mismanagement and therefore good governance plays a crucial role in the success of IPO.

In Africa, corporate governance standards vary greatly. In South Africa, the King IV Report on Corporate Governance (2016) sets the scene for ethical leadership and transparency. Nevertheless, in Sub-Saharan African countries, due to insufficient enforcement and family-controlled enterprises, many countries face governance challenges. For example, several Ugandan firms do not have independent directors nor have their CEO and board chair roles clearly separated, a factor that can damage confidence in investors' Sejjaaka, (2011). Although these challenges exist, the African Corporate Governance Network (ACGN) is a body of organizations that are using their platform to improve exchanges and attract investments.

In Ethiopia, corporate governance is still developing. The Ethiopian Capital Market Authority (ECMA) introduced new rules in 2023 that require independent boards and audit committees, along with annual governance reports. Nevertheless, challenges of skill shortage, poor enforcement, and unwillingness to external scrutiny hinder compliance World Bank, (2022). For example, when offering state-owned enterprises listed on the market, such businesses frequently maintain confusing governance footprints large enough to deter foreign investors. To help with

this, the ECMA launched the IPO Clinic in 2023 to support companies in improving their governance. Such practices need to be strengthened for Ethiopia to employ IPOs as a tool for accelerating economic growth and participation in the global economy (ECMA, 2023).

Financial literacy plays a crucial role in enabling companies to be primed for initial public offering (IPO) because it facilitates investors and corporate executives understanding capital markets. In high-income countries, greater financial literacy is associated with increased share of investors, improved investing behavior, and market stability. For example, the OECD/INFE Global Financial Literacy Survey (2020) showed that 62% of adults in OECD countries possess good financial literacy, which permits them to assess risk and benefit in the stock market Klapper Lusardi, (2020). Programs from the U.S. Securities and Exchange Commission (SEC) improve public understanding of IPOs, which builds trust and liquidity in the market. These initiatives demonstrate the role that financial literacy can play in enabling access to public markets and in driving long-run economic development OECD, (2020).

Low financial literacy is one of the principal problems in making an IPO 100% ready in Africa. Only 34% of adults in the panel have "basic financial knowledge" according to the S&P Global FinLit Survey (2015). Countries like South Africa and Kenya have started national campaigns to raise financial awareness, such as programs by South Africa's Financial Sector Conduct Authority (FSCA) Atiase et al.,(2019). Nevertheless, in a number of regions there are problems because of poor financial structures and low levels of education. For instance, Nigeria's National Financial Inclusion Strategy (2018) plans to promote financial literacy across schools curricula but fails to ensure underserved rural communities Central Bank of Nigeria, (2018). Improving financial literacy is vital for increasing retail investor participation and reducing dependence on foreign investors in African IPOs African Development Bank, (2021).

In Ethiopia, financial literacy is a growing but important factor for IPO readiness, with only 23% of adults showing basic financial knowledge World Bank, (2022). The work of the National Bank of Ethiopia (NBE) to promote financial inclusion is ongoing through the 2020 Financial Literacy Strategy (NBE, 2020) and educational programs, particularly for rural and urban populations. But obstacles such as lack of access to digital tools, mistrust of formal financial institutions, and lack of understanding of capital markets keep the advance limited. For example, the Ethiopian Securities Exchange (ESX), which began in 2024, has low retail investor

involvement, due to low understanding of equity investments by a majority of people Gebremedhin, (2021). To tackle these problems, the Ethiopian Capital Market Authority (ECMA) is working with universities and media to promote financial literacy, aiming to create a culture of informed investing and corporate responsibility ECMA,(2023).

Technological barriers like poor digital infrastructure, cyber security risks, and limited use of fintech solutions make it hard for companies to prepare for IPOs. These problems pose difficulties in compliance, fund raising and performance optimization. In mature markets such as the U.S., with detailed regulations, e.g., the SEC's EDGAR system, companies must be digitalized financial data and utilize powerful IT infrastructure Smith Johnson, (2022). However, smaller companies often find it difficult to afford the necessary cyber security and block chain technologies, which are vital for building trust with investors. For example, 43% of companies listed to go public in the US report that security issues for cyberspace cause them to delay going public because of compliance issues Deloitte, (2023). This is an indication of the demand for secure and scalable technology to streamline the IPO process in the age of digitalization.

In Africa, the technological hurdles mentioned above are further exacerbated by inconsistent internet availability, poor levels of digital literacy, and integrated fintech space. Although countries such as South Africa and Kenya have been able to leverage mobile money platforms such as M-Pesa to expand access to investment opportunities, numerous others cannot fully deploy digital IPOs. As an illustration, the stock exchange of Nigeria suffers from low participation by retail investors because of the scarcity of online trading facilities and the inadequacy in digital identity verification Okeke et al., (2021). Furthermore, countries such as Uganda experience delays and high expenses due to their use of manual procedures for the regulatory submission and shareholder communication process (African Development Bank, 2022). To overcome these issues, investments in internet connectivity, payment systems, and supportive regulations are needed to encourage fintech innovation.

In Ethiopia, the challenges to IPO readiness are significant. Internet is not accessible for 25% of the population and use of digital financial services is low World Bank, (2023). The Ethiopian Securities Exchange (ESX), launched in 2023, faces problems such as outdated trading systems, weak cyber security, and low public awareness of online investing. There are many transactions which are still being conducted manually which deter foreign investors who prefer automated

transactions Gebremichael, (2022). In an effort to address these challenges, the Ethiopian Capital Market Authority (ECMA) is collaborating with companies such as Safaricom to implement mobile trade. Nevertheless, problems with, among others, power blackouts and inadequate digital IDs still restrict progress ECMA, (2023). It is imperative that these technological disparities be closed to allow Ethiopia to use IPOs as a vehicle for inclusive economic development.

In recent years, Ethiopia has implemented substantial economic reforms, with a special emphasis on liberalization and privatization to spur growth and draw in foreign capital. The government now understands that sustainable economic growth requires a strong private sector. Several state-owned businesses have been designated for privatization as part of this plan, enabling private investors to invest in vital sectors like air lines, banking, and telecommunications. This change seeks to improve competition as well as efficiency and productivity, which will ultimately benefit consumers and encourage innovation. These reforms are in line with the implementation of an Initial Public Offering (IPO) framework, which gives businesses a way to raise capital and allows the general public to invest in businesses that were previously owned by the state.

The objective of this study is to discover and interpret the factors influencing IPO readiness in Ethiopia's developing market. It analyzes the contribution of legal regulation, corporate governance, financial literacy, and technology. While previous research has examined IPOs in developed countries and some African markets, Ethiopia's capital markets are still not well studied, even though they are becoming more important in the Horn of Africa. Based on global and regional analyses and within the frame of Ethiopia's specific circumstances, this research attempts to fill a critical gap within the literature.

1.1 Statement of the problem

Ethiopia's journey toward being ready for IPOs faces many challenges due to a complicated environment. This includes a young capital market, changing regulations, and unique socio-economic factors. The Ethiopian Securities Exchange (ESX) was approved in 2023, but the development of regulations has not kept pace. Key issues include confusing securities laws, weak enforcement mechanisms, and a lack of compliance with international standards (Abebe, 2022). These gaps create uncertainty for both issuers and investors, leading to a loss of trust and reduced participation. For instance, poor enforcement can result in non-compliance, which may

lead to fraud or mismanagement, further damaging investor confidence. Without a strong regulatory framework, companies struggle to meet listing requirements, and investors see Ethiopian IPOs as high-risk. This situation hinders the overall development of the market.

Corporate governance issues make it even harder for Ethiopia to be ready for IPOs. Many Ethiopian businesses lack proper governance practices, such as independent boards, audit committees, and public financial disclosures (Teklu, 2021). This leads to low transparency and accountability, discouraging investors. For example, the absence of an independent oversight body increases the risk of insider fraud, making Ethiopian companies less appealing to both local and foreign investors. Poor governance also prevents companies from meeting the high disclosure and accountability standards needed for successful IPOs. As a result, even businesses with great growth potential struggle to attract the capital they need to go public.

Another major obstacle is low financial literacy and weak public awareness. Many people do not understand how stock markets work or the benefits of investing in IPOs (Girma, 2020). This lack of knowledge leads to a small base of retail investors and less demand for IPOs. For instance, households often choose traditional savings methods, like real estate or informal schemes, over investing in stocks. Misconceptions about market risks also discourage public participation. Without a well-informed and engaged investor community, IPOs are less likely to succeed, making them less attractive for companies looking to raise capital. In South Africa and Kenya, public education campaigns and financial literacy programs have proven effective in addressing these challenges (Mwangi, 2019); (Ochieng, 2020) and could help break the cycle in Ethiopia.

Technological gaps also hinder IPO readiness in Ethiopia. Many organizations lack the resources to handle financial reporting, compliance, and investor communication, partly due to limited digital literacy that restricts access to fintech solutions (Mekonnen, 2021). These limitations lead to inefficiencies in the IPO process, resulting in higher costs and longer timelines. For example, a lack of digital tools for communicating with investors reduces companies' ability to reach potential investors, lowering the attractiveness of their offerings. Additionally, the absence of financial intermediaries and institutional investors further complicates the situation, leaving Ethiopia's capital market fragmented. Addressing these technological challenges by investing in IT infrastructure and improving digital skills is essential for enhancing IPO readiness and maximizing the potential of Ethiopia's capital market. Previous studies on IPO readiness in

Ethiopia highlight significant technological challenges, as noted by Mekonnen (2021), where many organizations lack the resources for effective financial reporting and compliance, largely due to limited digital literacy. This situation results in inefficiencies, higher costs, and longer timelines in the IPO process, particularly as inadequate digital tools hinder effective communication with potential investors. Despite these insights, there remains a gap in the literature regarding specific technologies that could enhance IPO readiness, the role of financial intermediaries in a fragmented capital market, and the potential benefits of improving digital skills and IT infrastructure. Addressing these gaps is essential for maximizing the potential of Ethiopia's capital market.

The lack of research that specifically looks at the factors affecting IPO readiness in Ethiopia makes the knowledge gap in the country's IPO ecosystem especially clear. Although a few studies have looked at capital markets generally, there aren't many thorough examinations that concentrate on the particular difficulties Ethiopian businesses face. By examining the interactions between important components like corporate governance, legal frameworks, financial literacy, and technological barriers, this study seeks to focus this attention. By focusing on these particular elements, the study will offer a sophisticated comprehension of the elements that can help or impede local businesses' IPO process.

The study will also explore the relationships among financial literacy, governance, and the legal regulatory framework, and technological barrier. Finding any gaps that might prevent IPO readiness requires an understanding of how these components interact. The research attempts to offer practical suggestions for regulators and policymakers by examining how governance affects stakeholders' financial literacy and how the legal environment impacts both. By promoting a more resilient and efficient capital market, addressing these understudied areas not only advances the scholarly conversation on initial public offerings (IPOs) in emerging markets but also advances Ethiopia's larger objectives for economic development.

1.2 Research Question

Based on the above statement of the problem the general research question is stated as: what are the determinants of IPO readiness in emerging market of business in Ethiopia. And based on this the following specific question were raised as follows:

1. How effective is Ethiopia's legal regulatory framework for public offerings in ensuring compliance with international standards and promoting investor protection?
2. How do corporate governance practices in Ethiopian firms relate to IPO readiness?
3. How does financial literacy facilitate participation in IPOs in Ethiopia,
4. What technological challenges hinder companies' readiness for Initial Public Offerings (IPOs) in Ethiopia, and how do these barriers affect their ability to meet regulatory requirements and attract investors?

1.3 Definition of Concept and Terms

Capital market: refers to the financial marketplace where long-term debt and equity-backed securities (e.g., stocks, bonds, and derivatives) are bought, sold, and traded. It facilitates the mobilization of funds between investors (e.g., individuals, institutions) and entities (e.g., corporations, governments) seeking capital for expansion, infrastructure, or other projects. Capital markets include primary markets (new securities issuance) and secondary markets (trading of existing securities), and they play a critical role in economic growth by channeling savings into productive investments. Regulation and transparency are key to maintaining investor confidence and market stability Taylor, (2023).

Stock exchanges: refers to a regulated marketplace where securities such as stocks, bonds, commodities, and derivatives are bought, sold, and traded. It provides liquidity, enables price discovery through supply and demand dynamics, and facilitates capital formation for businesses and governments. Key functions include listing requirements for companies, real-time trading platforms (e.g., NYSE, NASDAQ), and oversight to ensure fair practices and investor protection. Stock exchanges often operate via brokers or electronic systems and are governed by regulatory bodies (e.g., SEC in the U.S.) to maintain market integrity and transparency Miller, (2023).

Stock market: refers to the collective network of exchanges, over-the-counter (OTC) markets, and electronic platforms where securities such as stocks, bonds, ETFs, and derivatives are issued, bought, and sold. It enables price discovery, liquidity, and capital formation by connecting investors with businesses and governments seeking funding. Key functions include facilitating public listings (primary market), secondary trading of existing securities, and regulating transactions to ensure fairness, transparency, and investor protection. Major stock markets (e.g., NYSE, NASDAQ) are governed by regulatory bodies (e.g., SEC, FCA) and serve as barometers of economic health through indices like the S&P 500 or FTSE 100 Harris, (2023).

IPO readiness: is used to describe the situation where a business has met all the operational, financial, regulatory, and governance standards to be ready for an IPO. Establishing strong financial reporting systems, making sure securities laws are followed; showcasing potential for long-term growth, and having a capable board and management team are all part of this. To align stakeholder expectations, IPO readiness also entails risk management frameworks, comprehensive due diligence, and effective communication tactics (Smith, 2023).

Accounting practices: include the organized processes, guidelines, and standards that businesses employ to document, examine, and report financial activities. Accuracy, openness, and adherence to legal frameworks like International Financial Reporting Standards (IFRS) and Generally Accepted Accounting Principles (GAAP) are guaranteed by these procedures. The creation of financial statements, audits, tax compliance, bookkeeping, and internal controls are important tasks that preserve stakeholder trust and protect assets Johnson, (2022).

Financial inclusion: refers to the fair and easy delivery of reasonably priced financial services, including credit, insurance, savings, and payment systems, to marginalized and underprivileged groups, such as low-income individuals, small enterprises, and rural communities. It seeks to ensure that all people and businesses have access to practical, ethically provided financial solutions that satisfy their needs in order to combat poverty, increase economic participation, and advance sustainable development. To overcome obstacles like physical isolation, a lack of documentation, or gaps in financial awareness, financial inclusion frequently depends on technology advancements (such as digital wallets and mobile banking) and legislative interventions Lee, (2021).

Market infrastructure: Market infrastructure includes organizations and processes, including stock exchanges and brokerage houses that make trading in financial markets easier. By offering the required platforms for share trading after the IPO, a strong market infrastructure is essential to supporting the IPO process. Tandfonline.(2011)

Regulatory Framework: refers to the organized set of rules, legislation, guidelines, and standards put in place by governments, trade associations, or international organizations to control activity in a certain field or area. By outlining acceptable behavior, enforcement procedures, and sanctions for non-compliance, it guarantees adherence, safeguards the public interest, encourages fair competition, and reduces risks. Financial rules (like the Dodd-Frank Act), environmental safeguards, and data privacy legislation (like the GDPR) are a few examples. A strong regulatory

framework adjusts to changing sociological, technological, and economic environments while striking a balance between innovation and responsibility Wilson, (2023).

Corporate Governance: refers to the framework of rules, practices, and processes by which a company is directed and controlled. It involves balancing the interests of stakeholders (e.g., shareholders, management, customers, and regulators) through accountability, transparency, and ethical decision-making. Key components include defining roles of the board of directors, executive compensation structures, risk management protocols, and adherence to legal and regulatory standards (e.g., OECD principles). Effective corporate governance ensures long-term organizational sustainability, mitigates conflicts of interest, and fosters trust among investors and the public Brown, (2023).

1.4 Objectives of the study

1.3.1 General objectives

The general objective of this study is to evaluate the overall readiness of Ethiopian firms for initial public offerings (IPOs).

1.3.2 Specific objectives

- Evaluate Ethiopia's legal regulatory framework for public offerings, focusing on its compliance with international standards, effectiveness in promoting investor protection.
- Analyze the corporate governance practices in Ethiopian firms relate to IPO readiness
- Assess the role of financial literacy in facilitating participation in IPOs in Ethiopia,.
- Identify technological challenges that hinder companies' readiness for Initial Public Offerings (IPOs) in Ethiopia, and evaluate how these barriers affect their ability to meet regulatory requirements and attract investors.

1.5 Significance of the study

This study makes an important contribution by serving as a guide for researchers who have their eyes on exploring the factors that make a company ready to go public on Ethiopia's newer markets. By providing essential insights, it contributes to the existing body of literature and acts as a crucial resource for students, academics, corporate managers, and anyone strong to deepen their understanding of IPO readiness in the context of emerging market businesses in Ethiopia. Furthermore, this research is particularly significant for the researcher, as it enhances their

knowledge and capabilities in investigating the factors that influence IPO readiness in Ethiopia's emerging market. Ultimately, this research helps the researcher with their journey toward earning an MSc in Finance and Economics.

1.6 Scope of the study

The research is conducted in Addis Ababa city. Since the potential companies for initial public offerings (IPOs) to the recently established capital market that issue initial public offerings (IPOs) are located in Addis Ababa, the city is better suited for the study. Additionally, it is the economic capital of the nation which makes simpler to reach the intended audience comparatively to other cities of the country. Furthermore, the study merely made an effort to outline the current difficulties and future possibilities of the city's IPO share market.

1.7 Organizational of the study

This research report organized in five chapters. Chapter one provides the general introduction about the whole report. Chapter two describes the review of related literatures. Chapter three provides detail description of the methodology that used by the research, chapter four contains data presentation and analysis. Finally Chapter five covered result conclusion and recommendation.

CHAPTER TWO

2. REVIEW OF RELATED LITRATURE

2.1 Theoretical review:

2.1.1. Historical Overview of IPOs

The concept of the Initial Public Offering (IPO) has a rich history that dates back several centuries. It has evolved significantly over time, reflecting changes in economic systems, regulatory frameworks, and market dynamics. The following provides an entomological history outlining significant milestones and advances in the field.

Early Beginnings: The Dutch East India Company (1602) The modern concept of the IPO can be traced back to the Dutch East India Company (Vereenigde Oostindische Compagnie or VOC), which is widely regarded as the first company to issue shares to the public. In 1602 the VOC sold shares to investors in Amsterdam in order to fund trading expeditions. This represented the beginning of the stock market and the notion of corporate public ownership. Built in the year, the Amsterdam Stock Exchange, also one of the world's first formal stock exchanges, provided a formal market for the trading of VOC shares Neal,(2005).

The rise of stock exchanges in the 17th and 18th Centuries. Following the success of the Dutch East India Company, other European countries began to establish stock exchanges and facilitate public offerings. The London Stock Exchange was set up in 1698 to facilitate capital formation by companies through initial public offerings (IPOs). For example, the Paris Bourse (now Euronext Paris) was founded in 1724. These exchanges played a crucial role in the development of capital markets and the expansion of public offerings Michie, (1999).

The Industrial Revolution and the Incidental Development of IPOs (19th Century). The 19th-century Industrial Revolution spurred substantial IPO activity by companies that wanted to raise funds to finance large-scale industrial projects. The US became a major center for IPOs in this era, and New York Stock Exchange (NYSE) progressed from a pioneer to become a leader market for public offerings. Firms across industries, including railroads, steel, and oil, often employed IPOs to raise capital. E.g., the Baltimore and Ohio Railroad example set one of the first U.S. IPOs in 1827 Sobel, (1965).

The 20th Century: Regulation and Globalization. The 20th century brought about great developments in the regulation and internationalization of IPOs. The stock market crash of 1929 and its after effects, the Great Depression, triggered the development of stricter regulatory regimes to safeguard investors. In the United States, the securities Acts of 1933 and 1934 have proscribed practices for public offerings and have constituted the Securities and Exchange Commission (SEC) to regulate the market Seligman, (2003).

In the latter part of 20th century, globalization and technological progress changed the IPO environment. Companies began to list on multiple exchanges, and cross-border IPOs became more common. The rise of technology companies in the 1980s and 1990s, such as Microsoft (1986) and Netscape (1995), marked a new era of high-profile IPOs that attracted significant investor interest Ritter, (1998).

The Dot-com Boom and Bust (The 1990s-early 2000s). The late 1990s witnessed a surge in IPO activity, driven by the rapid growth of the internet and technology sectors. This period, known as the dot-com boom, saw numerous technology companies going public, often with high valuations despite limited profitability. Nevertheless, the bubble collapsed during the early 2000s and it resulted in a dramatic plunge in the IPO activity and a renewed attention to financial viability and investor protection Ofek Richardson, (2003).

The 21st Century: Emerging Markets and Technological Innovation. In the twenty first century, emerging markets have emerged as significant participants in the global IPO space. China, India, and Brazil have experienced a surge in IPO activity, fuelled by economic expansion and the growth of domestic capital markets. For example, the Alibaba Group's IPO in 2014, which raised \$25 billion, remains one of the largest in history Chen et al., (2015).

Technological innovation has also transformed the IPO process. The rise of electronic trading platforms, block chain technology, and crowd funding has created new opportunities for companies to raise capital and for investors to participate in IPOs. Special Purpose Acquisition Companies (SPACs) have also emerged as a viable alternative to conventional IPOs Klausner Ohlrogge, (2021).

Recent trends and the future of IPOs. IPO activity has been affected by economic instability, regulatory changes and the COVID-19 pandemic in recent years. However, this is true, even in the face of these challenges, the IPO market has been firm, and companies in the technology, healthcare, and renewables space have also continued to go public. Parallel with the increase of direct listings and the growing relevance of environmental, social, and governance (ESG) criteria, IPOs are on the verge of a transformation Ritter, (2021).

2.1.2. Initial Public Offering (IPO)

An Initial public offering (IPO) is a process through which companies sell shares of ownership to investors for the first time ever Beker, (2011) so that they will be considered as public companies afterwards. Many scholars have described the IPO differently but their opinions converge to a point that IPOs are first time offering of shares of companies to potential investors publicly. Jay R. Ritter (1998) defines it as "an initial public offering (IPO) happens when a security is sold to the public, i.e. to a much broader range of diversified investors for the first time in the hope that a liquid market can take hold. Also, according to Daniel H. Aronson and Berger Singerman (2011) an IPO is the first offering and sale of registered and publicly traded common shares of a company, by one or more lead underwriter(s) and a syndicate of underwriting firms, to a pool of public investors. Due to this reason, IPOs are also known as new issues Arif Khurshid, (2011).

2.1.2. IPO Readiness

The term "IPO readiness" describes a company's capacity to comply with legal requirements, draw in investors, and list on a stock exchange. Financial performance, company governance, market conditions, and regulatory compliance are just a few of the many elements it includes. According to Brown & Lee (2019), an organization's readiness to handle the challenges of going public, such as fulfilling operational, financial, and legal requirements, is known as IPO readiness.

2.1.3. Emerging Markets

Emerging markets are economies that are rapidly industrializing and growing but have not yet attained the level of development that is characteristic of advanced economies. These markets are distinguished by rising economic activity, developing capital markets, and deepening economic interaction with the rest of the world. Khanna & Palepu (2010). State that emerging economies

frequently encounter obstacles that can impede their progress, including inadequate institutions, regulatory gaps, and restricted access to capital.

2.1.4. Legal and Regulatory Framework

The legal and regulatory framework is the set of rules, laws, and policies that control stock market activities including initial public offerings. Disclosure requirements, investor protection measures, and securities regulations are all included. For initial public offerings (IPOs) to be transparent, accountable, and equitable, a strong regulatory framework is necessary. La Porta et al. (1998) stress that robust legal and regulatory frameworks are essential to the growth of capital markets and initial public offerings' success.

2.1.5. Corporate Governance Practice

Corporate governance is the set of policies, procedures, and guidelines that regulate how a business is run. It consists of procedures like audit committees, independent boards, and open financial reporting. In addition to ensuring that businesses function responsibly and accountable, good corporate governance boosts investor trust. Corporate governance, according to Shleifer & Vishny (1997), is the process by which companies' financial providers ensure that they will receive a return on their investment.

2.1.6. Financial Literacy

The term "financial literacy" describes a person's capacity to comprehend and apply financial ideas including risk, return, and investment opportunities. It is essential for helping people make well-informed choices regarding taking part in initial public offerings (IPOs) and other financial endeavors. Financial literacy is the ability to make wise financial decisions, which are critical for economic well-being, according to Lusardi & Mitchell (2014).

2.1.7. Public Awareness

Public awareness is the degree to which the general public is aware of how the stock market functions and the advantages of investing in initial public offerings (IPOs). Media attention, outreach initiatives, and instructional efforts are frequently used to improve it. The significance of public knowledge in boosting investor engagement and promoting capital market development is emphasized by Kim & Park (2020).

2.1.8. Technological Barriers

Technological barriers are the difficulties businesses encounter while implementing and using technology to satisfy legal obligations and draw in investors. Low digital literacy, insufficient infrastructure, and restricted access to cutting-edge technology tools are some of these obstacles. Technological preparedness is a crucial factor in IPO success, according to Mekonnen (2021), especially in developing nations where infrastructure deficiencies are common.

2.1.9. Investor Protection

The term "investor protection" describes the policies and procedures put in place to protect investors' interests, especially during initial public offerings. It contains rules pertaining to fraud prevention, disclosure, and transparency. Building confidence and trust in the market requires robust investor protection measures. Investor protection, according to La Porta et al. (2000), is crucial to the growth of capital markets and the accomplishment of initial public offerings.

2.1.10. Capital Market Development

The term "capital market development" describes the expansion and growth of financial markets, such as stock exchanges, bond markets, and other venues for capital rising. It entails building a strong regulatory framework, encouraging investor involvement, and improving market infrastructure. Development of the capital market is essential for economic progress, according to Levine (1997), because it encourages investment and makes resource allocation more effective.

2.1.11. Financial Performance

The financial condition of a company is one of the critical factors in its IPO preparedness. Measures of profitability, liquidity, and debt all provide signals of a company's ability to raise capital and operate after its introduction to the public as an IPO. Research also demonstrated that companies having strong financial performance are viewed as less risky investments and thus attractive to potential investors Engelen van Essen, (2010).

2.1.12. Operational Transparency:

Operation and financial reporting transparency play an important role in minimizing information asymmetry between the firm and its investors. Companies whose disclosures are transparent and

complete in terms of their business operations and financial situation are better positioned to generate investor trust necessary to effectuate a successful IPO Bosy Akl Ahmed, (2021).

2.1.13. Macroeconomic Environment

The broader economic context significantly influences IPO readiness. Economic stability, growth potential, and market sentiment (among others) contribute to the formation of such investor attitudes and willingness to invest in novel offerings. A benign macroeconomic background may stimulate investor demand for IPOs La Porta et al., (2006).

2.1.14. Market Infrastructure

The creation of capital market infrastructure—that is, stock exchange, trading platform, and professional services—are crucial to IPO success. When the market infrastructure is well-integrated, it can give the support firms need to move delinquent by providing valid trading and liquidity Ahmed Fathy, (2021).

2.1.15. Investor Education

The degree to which investors are informed and literate of the mechanism of an IPO directly influences market participation. Greater financial literacy among prospective investors can have the effect of raising the demand for IPO shares, in turn making IPO offerings more likely to succeed Engelen van Essen, (2010).

2.1.16. Cultural Attitudes toward Equity Financing

Societal views of equity financing may also affect a firm's decision to go public. Firms may be more likely to make an IPO if the culture is receptive of equity financing as opposed to where cultures favor debt financing Akl Ahmed Fathy, (2020).

2.1.17. Role of Institutional Investors

The availability of institutional investors can foster market legitimacy and acceptance of new products. Such involvement is a clear indicator of confidence in the future of a company and can bring in further retail investors Engelen van Essen, (2010).

2.1.18. Economic Indicators

Key economic indicators such as GDP growth rates and inflation levels provide insights into the overall health of an economy and its capacity to support new public offerings Engelen van Essen, (2010).

2.1.19. Policy Implications

Regulatory reforms La Porta et al., (1998), aimed at improving transparency and safeguarding investor interests, are key contributions of policymakers in creating the IPO climate in which successful offerings can thrive.

2.1.20. The IPO Process

The IPO is a protracted process that begins well in advance of the initial filing for registration. In Ethiopia companies engaged in IPO issuing first apply to the ministry of industry for registration [but there are no clearly defined IPO task for companies to follow Tikikilile K., (2011). That is why the author prefers to write about this IPO process (it is already a long way for US American companies) because they have developed financial markets in this context. The IPO process is not a onetime financing issue rather should be taken as a transformational process in the life of companies. Thus, IPO should begin long before the IPO becomes active and continue long after all of IPO shares are sold, to permit the preparation of good value over the life of the companies as public companies. As a result the IPO process has also been called the IPO Value Journey (EYGM Limited, 2013). According to the same source above the IPO process may began at least twelve months before the first IPO organizational meeting is conducted to ensure whether the company is ready to undertake the IPO and continue for up to twenty-four months after the IPO is made effective in order to build good reputation in the public that their company is delivering its promises and is in the plan. However the precise duration of the process varies and is influenced, among other factors, by a company's willingness to be listed on a stock exchange, the availability of data that has to be made public for listing and a general state of the market PricewaterhouseCoopers LLP, (2010).

2.1.21. Going Public

Going public is an extremely important step for any industry, because it fundamentally alters how a business will conduct itself from that moment PricewaterhouseCoopers LLP,(2010). Going public seems straight forward and as simple as selling shares of ownership though it is complex the process Deloitte Development LLC, (2012). Thus companies would do well to prepare for an IPO well before application for registration is filed. A properly prepared company is less likely to complete the IPO at a relatively short time and therefore the cost in carrying out the same process is minimized PricewaterhouseCoopers LLP, (2010) pp. 8.

2.1.22. Advantages of IPO Readiness

Access to Capital: Among the most attractive benefits of an IPO is the large amount of capital generated in the public offerings. Corporations are able to attract substantial amounts of money, which can be used for a wide array of uses including R&D, expansion, reduction of debt, as well as operational enhancements. This influx of capital can change dramatically the growth path of a company and allow it to explore new avenues on Board, (2024).

Increased Visibility and Prestige: Public listing increases a corporation's market awareness, thereby increasing its brand awareness and reputation with consumers and partners. This higher standing can consequently result in higher sales and business prospects, as public listing usually indicates stability and trustworthiness Upstox, (2022).

Liquidity for Existing Shareholders: An IPO brings liquidity to current shareholders, such as founders and early investors, from which they can produce returns from their investments. This liquidity could also be attractive, having traditionally been invested in the company IPOHub, (2017).

Market Opportunities: An IPO can provide access to strategic alliances and partnerships, which would not have been available as a privately held company. Visibility acquired from public status can encourage potential collaborators searching for trustworthy partners Tipalti, (2024).

2.1.23. Disadvantages of IPO Readiness

High Costs: The IPO process is costly with underwriting charges, legal charges, accounting charges and ongoing charges for regulatory compliance. These expenses can have a considerable effect on a company's financial aspect Upstox, (2022).

Loss of Control: Founders can experience control dilution after going public as they have to appease public shareholders and their associated demands. This shift may produce conflicts between long-term strategic aims and short-term pressure on performance IPOHub, (2017).

Market Volatility: The stock prices of publicly traded companies are ever in flux and are, in many instances, not under the corporation's control. Due to negative market sentiment or economic recession, there are often dramatic declines in stock prices, which impact the morale of the companies and investor confidence Tipalti, (2024).

Regulatory Compliance Burden: Public companies are obliged to, amongst other things; face complex, stringent regulatory demands, which require considerable administrative time/effort for the purposes of compliance. This workload can put pressure on smaller companies that don't possess the necessary infrastructure to fulfill these requests adequately Volopay, (2023).

Time-Consuming Process: An IPO process entails a significant amount of time and resources involving compliance efforts ongoing market outreach around the offering and the development of financial disclosures. This activity can take attention away from core business activities in crucial growth periods Investopedia,(2024).

2.1.24. IPO Preparation-Function

Initial public offering (IPO) requires coordination across various functions, including

- Accounting and reporting
- Finance effectiveness
- Financial planning and analysis
- Internal control and internal audit
- Capital market strategy
- Media and investor relation
- Governance
- Legal and compliance
- Enterprise risk
- Treasury

Technology and Project management play crucial role in ensuring these areas are effectively integrated and aligned for a successful public offering.

2.2 Empirical review

According to Samuel K. Seijaaka (2011), who focuses on Ugandan enterprises in his work *Determinants of IPO preparedness in Emerging Markets: The Case for Ugandan enterprises*, the factors that influence IPO preparedness in emerging markets is examine. The study highlights micro-level elements such as market activity (information asymmetry), board legitimacy (as determined by the presence of independent non-executive directors), business age, and disclosure level that affect a company's readiness to go public. The study examines panel data from 35 companies throughout the fiscal years 2003–2007 using logistic and multinomial logistic regression models. The results show that a lack of published accounts, one-party control of boards, and the separation of the CEO and chairman responsibilities are just a few examples of the governance improvements that prevent Ugandan companies from meeting listing requirements. In order to strengthen financial markets and enhance governance in developing nations like Uganda, the report emphasizes the necessity of legislative measures. In order to improve capital market development and economic progress, it offers empirical facts to help policymakers create an atmosphere that is favorable to initial public offerings (IPOs).

Ahmed A.A., Fathy B.A.G., Samak N.A.-A. (2022) *Determinants of IPO Initial Returns in Emerging Markets: A Quintile Regression* This study investigates the determinants of cross-sectional variation in initial public offering (IPO) first-day returns across seven emerging markets, using a sample of 710 IPOs issued between 2013 and 2017. Data are analyzed by using ordinary least squares (OLS) regression and semi-parametric quintile regression (QR) method together. The QR method is especially promising, since it enables the estimation of the effects of explanatory variables at various points along the distribution of the first return of the IPO to be tested for robustness to outliers and for non-stationary of the data. Results indicate that underpricing of IPO does not differ uniformly across countries, with an average first-day return of 78%. The OLS estimates show that the predictors account for 26% of the dispersion of IPO initial returns. In addition, the QR analysis reveals the effect of explanatory variables is not uniform across quintiles, indicating the special utility of this approach in characterizing heterogeneous IPO underpricing. This study extends the literature on IPO underpricing by incorporating country-specific characteristics that have been largely overlooked in prior research. Besides firm-specific, market-specific, and issue-specific factors, the paper also focuses on the institutional and regulatory environment effects on the outcome of an IPO in emerging markets.

Mellouli D., Ellouz S. (2023) Determinants of IPO stock market liquidity in a Small Emerging Economy This paper examines determinants of liquidity in the secondary market following IPOs (initial public offerings) in Tunisia, a small emerging economy. The paper investigates the effect of IPO returns and investor sentiment on IPO liquidity using two alternative models. It studies a sample of 35 IPOs traded at the Tunis Stock Exchange (TSE) activity between 2005 and 2020. Results show that initial underpricing is strongly related to both illiquidity and thus the compensation for postoperative illiquidity is believed to be mediated by underpricing. Additionally, the study demonstrates that investor sentiment plays a significant role in determining aftermarket liquidity on the TSE, highlighting a statistically significant correlation between investor sentiment and IPO liquidity. These findings highlight the need for both market-related and cognitive factors to influence IPO outcomes in emerging markets.

Osman wagdi (2018) The Attitude of IPO Decision in Emerging Markets: Evidence from Egypt This work offers a framework for the investigation of the ability of, and contributing factors to, IPO decision making at developing economies, with particular reference to, Egypt. It groups these predictors into qualitative and quantitative. The paper therefore primarily focuses on qualitative determinants, the attitudes of founders, investors, and managers thereto. Results underscore the need for qualitative factors, including behavioral and agency-relevant factors, in IPO choices. The work highlights the importance of regulatory actions made by stock market operators, central banks, and tax authorities in the financing of IPOs. It further points out the significance of awareness campaigns provided by stock markets and government bodies to inform stakeholders about the advantages of public offerings. Furthermore, the study also brings a new perspective on the other side of the agency problem that explains how qualitative attitudes affect IPO decisions. These are important implications for policymakers and market participants striving to create a supportive IPO climate in emerging markets.

Muhammed Mikhdad (2024) External Economic Indices and IPO Timing: This paper investigates relationships between external macroeconomic conditions and IPO timing (where IPO timing refers to the entry of listed companies into the Stock Market) from 1985 to 2022. The ultimate objective is to uncover the primary predictors of the number of IPOs, with the aim of providing information about market preparedness and strategic timing points for companies considering an IPO. Taking into consideration a deep literature review, the article examines the

effects of economic and financial factors on IPO activity. It discusses different theoretical frameworks and phenomena, including information asymmetry, uncertainty, IPO underpricing, the credibility of signals from companies going public, venture capital support for IPOs, investor sentiment, and overall market performance. To describe these relationships, the paper employs some multiple linear regression methods. It looks at the influences of such items as inflation, GDP growth, venture capital-backed IPOs, the rate of new business incorporations, and annual return on stocks. Using detailed diagnostic testing, the study builds a robust model with an R-squared value of 0.888, which validates the theoretical model and enables accurate interpretation of its results.

Ayisha A., Rasidah Mohd-Rashid, and Norliza Che-Yahya (2022). This paper reviews the literature on the flipping activity of initial public offerings (IPOs). In order to realize the goal of this work, articles listed in the Scopus database and Google Scholar was considered. The review revealed that the extent of flipping varies significantly across countries, with emerging markets exhibiting a higher rate of IPO flipping than developed markets, highlighting the prevalence of high information asymmetry in these regions. Furthermore, several key factors were found that could regulate the flipping behavior, such as underwriters, institutional investors, initial return, market conditions, lock-up provision, and issue size. Despite identifying these variables, some factors remain unexplored. These are institutional environments, registration laws, political activities, and pre-IPO disclosures in the prospectus, which may offer potential directions for future work. Researching these covariates will help potential investors to confidently navigate the decision to invest in an IPO, which in turn will aid in their profit optimization.

Ben Ahmed, F., Salhi, B., and Jarboui, A. (2021) study the association between corporate governance mechanisms and the reliability of forecast in earnings in Tunisian IPO prospectuses. The authors based on a sample of 33 IPO companies (165 firm-year observations) from 2011 to 2015, use a multiple regression approach (FGLS) that investigates the effect of corporate governance constructs and audit quality on earnings forecast error. The findings reveal that firms with larger audit committees and those employing brand-name auditors exhibit significantly higher levels of earnings forecast accuracy. As a result, these findings underscore the necessity for strong regulatory oversight and rigorous audits in improving the quality and credibility of financial disclosures in IPOs. In addition, the research highlights the practical implications to

regulators, finance professionals, and investors, and the fact that information requirements regarding detailed forecasts can enhance market efficiency by minimizing forecast errors. Furthermore, the study highlights the special regulatory environment in Tunisia that requires disclosure of earnings forecasts in the IPO prospectuses and thus offers a unique context in terms of governing and audit quality's influence. This paper contributes to the literature by simultaneously testing the effects of corporate governance and audit quality on earnings forecast accuracy in an emerging market. The findings offer valuable insights for policymakers and market participants in Tunisia and other developing countries aiming to strengthen financial disclosure practices and enhance investor confidence.

2.3. Gaps in African IPO Research and Ethiopia's unique challenges

While prior study on IPO readiness in African markets offers insightful information, there is a noticeable lack of attention to the unique difficulties faced by nations such as Ethiopia. The governance structures that support IPO success have received less attention in research than factors like underpricing, liquidity, and decision-making procedures. For example, the findings of Samuel K. Sejjaaka (2011) from Uganda emphasize the importance of governance reforms that are necessary for IPO readiness, such as financial transparency and board independence. These essential governance frameworks, such as the separation of the chairman and CEO roles and the release of audited financial statements, are frequently absent from Ethiopian companies, especially family-owned enterprises. This governance deficiency is compounded by a context characterized by high information asymmetry and low investor confidence, mirroring challenges faced in other emerging markets like Uganda and Tunisia.

Moreover, Ethiopia's distinct socioeconomic and regulatory environment makes IPO readiness problems worse. Public offerings are severely hampered by elements like inadequate regulatory frameworks and low financial literacy, as highlighted by Ahmed et al. (2022) and Mellouli & Ellouz (2023). Osman Wagdi (2018) emphasizes behavioral biases and agency conflicts, which make matters more difficult because potential issuers continue to exhibit cultural resistance to giving up control. Furthermore, Mikhdad (2024) discusses how external factors like political risks and macroeconomic instability present serious risks to IPO activity. To close these gaps, strong institutional frameworks, higher-quality audits, and extensive investor education

initiatives are urgently needed. Ethiopia can adopt successful tactics to fortify its capital market and improve IPO readiness by taking note of other emerging markets' experiences.

2.4. Conceptual Framework

This framework outlines the interrelationships between the key determinants of IPO readiness in Ethiopia and their impact on capital market development and economic growth. It is structured into independent variables (determinants), and dependent variables (outcomes).

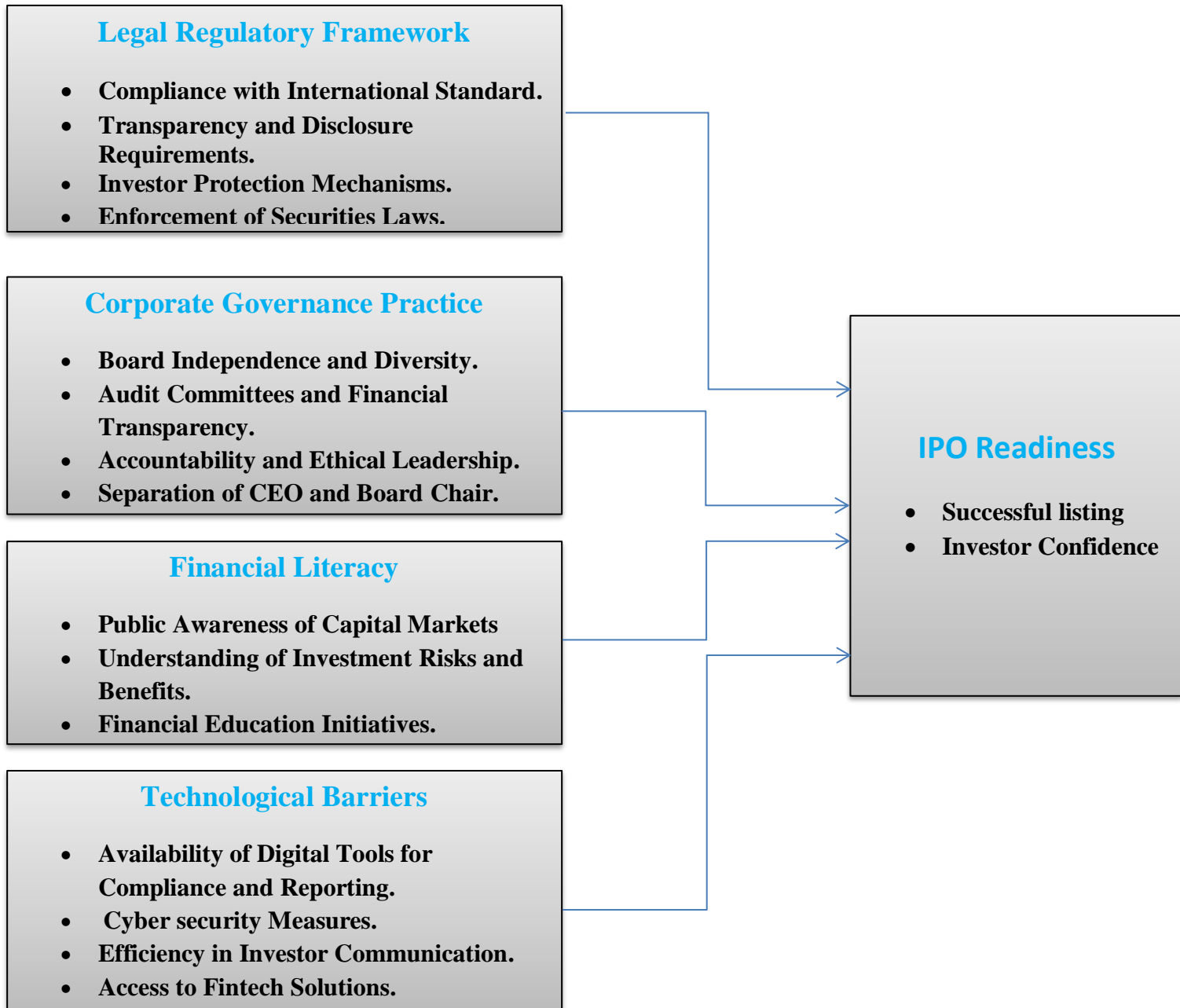


Figure: 2.1 Conceptual Framework of IPO Readiness

To measure IPO readiness in Ethiopia, a comprehensive approach was utilized that combined both qualitative and quantitative metrics. The assessment began with an analysis of the regulatory framework, focusing on the clarity, accessibility, and enforcement of securities laws. This was complemented by evaluating corporate governance practices within firms through surveys and interviews with stakeholders, which helped gauge how these practices influence investor confidence and compliance with legal standards. The study also examined the existing compliance levels of firms with international best practices, providing insights into their preparedness for the IPO process.

In addition to regulatory and governance factors, the research assessed financial literacy among potential investors through targeted questionnaires designed to evaluate their knowledge, attitudes, and comfort levels regarding investments in IPOs. The availability and effectiveness of technological tools were also investigated, identifying gaps in digital infrastructure and skills that could hinder the IPO process. By integrating these diverse dimensions—regulatory compliance, corporate governance, investor knowledge, and technological readiness—a holistic understanding of IPO readiness in Ethiopia was achieved, revealing both strengths and critical areas for improvement.

CHAPTER THREE

3. RESEARCH METHODOLOGY

3.1 Research design and approach

3.1.1 Research design

A research design is a blueprint for conducting a study that provide maximum control over factors that may interfere with the validity of the findings Saunders et al., (2009). The research design for this study is a descriptive study and exploratory design aimed at determining the IPO readiness in Ethiopia: assessing regulatory framework, corporate governance, financial literacy and technological challenges.

3.1.2 Research approach

The research approach of this study will involve both qualitative and quantitative for conducting the research because the overall strength of the study will be greater when both qualitative and quantitative research approaches are utilized Creswell, (2009). A mixed approach, or a combination of quantitative and qualitative research approaches, are used when more than one data collection technique is employed with associated analysis techniques Saunders et al., (2009).For instance in this study, questionnaires are used to collect quantitative data, and these data is analyzed using statistical (quantitative) procedures. Interviews are used to collect qualitative data, and these data is analyzed using qualitative procedures.

3.2 Population and sampling technique

3.2.1 Target Population

This study consists of Chief Finance Officer (CFO), Chief Executive Officer (CEO), General Manager, Deputy General Manager, Finance Manager and Chief Accountant from Some Selected of large tax payer Share Company and Private Limited Company. To achieve the objective of this study considered the whole population manufacturing 100, bank sector 50 and insurance company 40 Total 190 target population.

In focusing on the manufacturing, banking, and insurance sectors for this study, the decision was based on several key factors. Firstly, these industries represent significant segments of the Ethiopian economy, contributing substantially to GDP and employment. Their experiences with

IPO readiness are particularly relevant due to the structured nature of their operations and regulatory requirements, making them ideal candidates for assessing corporate governance and compliance practices. Additionally, these sectors have shown an increasing interest in accessing capital markets, which aligns with the study's objectives.

The determination of the target population numbers was based on a systematic approach. For manufacturing, a total of 100 large taxpayer companies were identified, as they typically have the necessary scale and resources to consider IPOs. In the banking sector, 50 institutions were included, reflecting a focus on established banks that are subject to rigorous regulatory scrutiny. Finally, for the insurance industry, 40 companies were selected, representing those actively engaged in the capital market. This selection was made to ensure a diverse yet manageable sample size that could provide meaningful insights into IPO readiness while maintaining a focus on sectors with the highest potential for capital market engagement. Other industries, such as transport and mining, were not included to maintain a concentrated focus on sectors that are currently more aligned with the IPO landscape in Ethiopia.

It's important to emphasize the manufacturing, banking, and insurance industries' crucial roles in Ethiopia's economy when talking about their selection for this study. While the banking industry is essential to enabling financial transactions and investments, the manufacturing sector is critical to industrial growth and job creation. In a similar vein, the insurance sector is essential for financial stability and risk management, especially in a changing market. Together, these industries offer important perspectives for evaluating corporate governance and IPO preparedness. In terms of ethics, informed consent forms will be used to guarantee that each participant is completely aware of their rights and the goal of the study. Additionally, anonymization procedures will be used to safeguard participants' identities and private data, upholding confidentiality and encouraging confidence all the way through the study.

3.2.2 Sampling technique

This study uses a stratified random sampling method to determine the sample size, since the population in different companies is considered heterogeneous, implying that a simple random sample is unrepresentative. Chief Finance Officer (CFO) and Chief Executive Officer (CEO) General Manager, Deputy General Manager, Finance Manager and Chief Accountant are utilized to collect primary data using questionnaires. The sample needed for this particular study was determined by following Yamane (1967) formula as;

$$n = \frac{N}{1 + Ne^2}$$

Where, n = signifies the sample size, N = is the target population under the study, e = is 0.05. The margin error, so, the sample size will be

Justification for Using Yamane's Formula

Simplicity and Ease of Use: The Yamane formula is really easy to use and straight forward which makes it really accessible and useful for researchers who don't have super deep statistical knowledge. It provides a quick way to calculate an appropriate sample size.

Accurate Sample Size Estimation: This formula calculates the population size (N) and also accounts for the level of accuracy (e) we're aiming for. By doing this, it helps ensure that the sample size is sufficient to represent the population adequately, improving the reliability of the study findings.

Margin of Error Consideration: By incorporating a specific margin of error (e), which is 0.05 in this case, the Yamane formula allows researchers to control the level of accuracy in their estimates. This helps in making informed decisions based on the data collected.

Widely recognized and used: The Yamane formula is super common when it comes to doing research methodology and it really gets recognition and respect in world academe. Using standardized formulas can enhance the credibility and acceptance of the research approach and findings.

$$= \frac{190}{1 + 190(0.05)^2} = 128.813559 = 129$$

Table 3.1 Sample Size per Company

Type	Target Population = N	Sample size = n	Proportion rate = N_i/N	Sample Size Per Company = n_i
Manufacturing Company	100	129	0.5263	68
Bank Sector	50	129	0.2631	34
Insurance Company	40	129	0.2106	27
Total	190	129	1.00	129

3.3 Type and source of data

3.3.1 Source of data:

To achieve the objectives of the study, both primary and secondary sources of data are used. The primary data is collected from the beneficiaries of some selected businesses in Ethiopia and other credible sources through interviews and questionnaires, as well as by referring to secondary data extensively. Secondary sources of data include books, academic journals, organizational manuals, research reports, and recorded data.

3.4 Method of data collection

3.4.1 Primary Data Collection Method

a) Questionnaires:

The questionnaires contain both open and close-ended questions. Open-ended questions allow the respondents to provide detailed information, feelings, attitudes, and understanding of the subject. On the other hand, close-ended questions make it easier for the respondents to respond. To facilitate the respondents' answers to the questionnaire, a five-point Likert scale measurement is introduced in the questionnaire to request respondents to indicate their level of agreement with the following ratings: Strongly Agree (5), Agree (4), Neutral (3), Disagree (2), and Strongly Disagree (1).

b) Interviews:

Interview questions are used to triangulate and support the data obtained through questionnaires and to gather information from respondents purposively selected from the study area. Therefore,

face-to-face semi-structured interviews are conducted with the chief finance officer (CFO), and the chief executive officer (CEO), General Manager, Deputy General Manager, Finance Manager and Chief Accountant who are selected through stratified random sampling techniques.

3.4.2. Secondary Data Collection Method

The secondary data is collected through the review of materials, reports of the World Bank development indicators, National Bank of Ethiopia reports, Capital Market Authority, and various government institutions like MoT, MoFED, and the IMF database, as well as various journals and literature. Additionally, different financial proclamations, economic policies, plans, regulations, and directives, as well as media products, are consulted and critically reviewed as secondary sources to substantiate the firsthand information.

3.5. Method of data analysis:

The data collected through the questionnaires is analyzed using descriptive statistics, including frequency distributions, percentages, means, and standard deviations, using SPSS (Statistical Package for the Social Sciences). Descriptive statistics are selected for this study due to their simplicity and clarity in summarizing patterns within the data. Quantitative analysis applies to closed-ended questionnaire responses, while qualitative data from open-ended questionnaires, interviews, and document reviews is interpreted thematically and aligned with the study's goals and objectives.

3.6. Data Reliability and Validity

Cooper & Schindler (2006) state that the Cronbach alpha coefficient offers a distinct, quantifiable estimate of a scale's internal consistency and is particularly useful for multi-item scales at the interval level of measurement. It only needs to be administered once. A Cronbach's alpha value of 0 indicates no internal reliability, whereas a value of 1.0 indicates excellent internal reliability. Bryman (2007). The measurement is more accurate if the coefficient is near 1.00. Mertens (2010) Cronbach's alpha values between 0.8 and above are regarded by Zikmund et al. (2010) as having very good reliability, those between 0.7 and 0.8 as acceptable, those between 0.6 and 0.7 as fair and satisfactory, and those below 0.6 as poor dependability.

Table.4.1. Cronbach’s Alpha Reliability Test

Code	Variable	No of Item	Sign	Alpha	Internal Consistency
LRF	Legal Regulatory Framework	5	+	0.963	Excellent
CGP	Corporate Governance Practice	4	+	0.965	Excellent
FL	Financial Literacy	5	+	0.946	Excellent
TB	Technological Barrier	4	+	0.977	Excellent
IPO	Initial Public Offering	4	+	0.966	Excellent
	Test Scale	22	+	0.990	Excellent

Source: SPSS 20 Output Based On Survey Data, 2025

Interpretation of Table 4.1: Cronbach’s Alpha Reliability Test

A Cronbach’s Alpha test was performed on all the major variables: Legal Regulatory Framework (LRF), Corporate Governance Practice (CGP), Financial Literacy (FL), Technological Barriers (TB), and Initial Public Offering (IPO) in order to guarantee the survey instrument’s internal consistency and reliability. The reliability analysis's findings are compiled in Table 4.1.

The high Cronbach's Alpha values for each variable showed excellent internal consistency:

- The items measuring regulatory conditions are highly reliable, as indicated by the Legal Regulatory Framework's (LRF) alpha of 0.963.
- The internal consistency of the statements evaluating governance practices was confirmed by the Corporate Governance Practice (CGP) alpha of 0.965.
- With an alpha of 0.946, Financial Literacy (FL) demonstrated strong reliability in gauging respondents' perceptions and comprehension of financial knowledge.
- The most consistent responses about technological challenges were found for Technological Barrier (TB), which had the highest alpha of 0.977.
- The Initial Public Offering (IPO) showed outstanding consistency in measuring IPO-related factors, with an alpha of 0.966.

Further demonstrating the high reliability of the survey instrument as a whole is the exceptionally high Cronbach's Alpha of 0.990 obtained by the overall test scale, which consists of all 22 items across the five variables.

A Cronbach's Alpha value greater than 0.9 is regarded as excellent, per accepted standards. Therefore, every measured construct in this study satisfies or surpasses this cutoff, guaranteeing that the data gathered is reliable and consistent for additional analysis.

The findings' credibility is strongly supported by the reliability test results, which confirm the survey instrument's internal coherence. Excellent reliability for every variable strengthens the validity of the research framework and increases confidence in the study's conclusions.

3.7. Ethical Considerations

The researcher observes strict ethical responsibilities in conducting this research. Research ethics with connecting to the rights of human subjects in fieldwork, notably the right to informed consent; right to privacy and confidentiality; and right not to be deceived or harmed as a result of participation within the research should be emphasized Bryman, (2007). All information was treated with confidentiality while not exposing the respondents' identities. Additionally, no information was modified or altered; later, the information was current as collected, and all categories of literature collected for this study are acknowledged within the reference list. The purpose of the study's ethical considerations can be specified as one of the most important parts of the research. Respect for the self-respect of research participants was prioritized. The full agreement must be obtained from the participants before the study. Research ethics are important for several reasons. They promote the aims of the research, such as expanding knowledge. They support the values required for collaborative work, such as mutual respect and fairness. This essential because scientific research depend on collaboration between researchers and groups. Thus, the researcher introduce the purpose of the study as the self-actualization of a Master's Degree study program and not for any other hidden agenda by the researcher, and request that the respondents participate in the study voluntarily, with refusal or abstaining from participating being tolerated.

CHAPTER FOUR

4. RESULT AND DISCUSSIONS

4.1. Introduction

This chapter explains and discussion the results finding based on the analysis done on the data collected. The result of the study is discussed by triangulating the different sources results, such as questionnaires result, key informant interview as well as a document review result. The discussion attempted to accomplish the objectives of the study and answer the research questions.

4.2. Response Rate

A total 142 questionnaires which consists 22 closed-ended and 8-open-ended questions were distributed Chief Financial Officer, Chief Executive Officer, General Manager, Deputy General Manager, Finance Manager and Chief Accountant. For this study from the total questionnaires 129 questionnaires were fully completed, returned and used for analysis of the study with response rate of 90.84%. Beside this the researcher conducted 10 face to face interviews with selected respondents to triangulate the responses gather from the questionnaires.

4.3 Demographic Characteristics of the respondents

Table 4.2. Demographic Characteristics of the respondents

S.No	Variable	Category	Frequency	Percent
1	Gender	Male	78	60%
		Female	51	40%
Total			129	100%
2	Age	Between 31 and 40	42	33%
		Between 41 and 50	55	43%
		Between 51 and 65	28	22%
		Above 65 Years	4	3%
Total			129	100%
3	Education Qualification	Degree	65	50%
		Masters	62	48%
		Ph.D.	2	2%
Total			129	100%
4	Experience	Between 1 and 5	28	22%
		Between 6 and 10	35	27%
		Between 11 and 15	39	30%
		Between 16 and 20	18	14%
		Above 21 Years	9	7%
Total			129	100%
5	Firm Age	Between 5 and 10	47	36%
		Between 11 and 20	54	42%
		Between 21 and 30	21	16%
		Between 31 and 40	5	4%
		Above 41 Years	2	2%
Total			129	100%

Source: SPSS 20 Output Based On Survey Data, 2025

Interpretation of Table 4.2: Demographic Characteristics of the Respondents

The respondents' demographic profile offers crucial background information for comprehending the viewpoints collected for this study. The main demographic factors, such as gender, age, educational background, work experience, and company age, are compiled in Table 4.2.

Gender

60% of the sample's responders were men and 40% were women, indicating a well-balanced although marginally male-dominated participation rate. Both genders are fairly represented in Ethiopia's corporate and financial sectors, according to this breakdown.

Age

According to the age distribution, 33% of respondents were between the ages of 31 and 40, while 43% of respondents were between the ages of 41 and 50. Just 3% of the sample was above 65, whereas 22% of the sample was between the ages of 51 and 65. Given that the majority of participants are in their prime working years, it is likely that the responses are from people who are actively involved in and have sway over capital market and business decision-making processes.

Educational Qualification

50% of the respondents had a bachelor's degree, and 48% had a master's degree, demonstrating their high level of education. Just 2% of the population had a Ph.D. The participants' high degree of education suggests that they have a solid academic background and are therefore well-equipped to comprehend the intricate financial, governance, and technology concerns that are pertinent to the study.

Experience

Although respondents' work experience varied, most had a long professional history: 27% had 6–10 years of experience, 22% had 1–5 years, and 30% had 11–15 years of corporate experience. However, we observe that 7% had more than 21 years of experience, and 14% had 16 to 20 years. This demonstrates that the majority of respondents have very practical abilities, which lends credence to their evaluations of topics like financial literacy, company governance, technical obstacles, and IPO readiness.

Firm Age

The age range of the firms included in the study was likewise varied. 36% were between the ages of 5 and 10, while 42% had been in business for 11 to 20 years. Just 6% of businesses were older

than 30 years, while 16% had been in business for 21 to 30 years. This According to the distribution, the survey included perspectives from both comparatively new and established companies, providing a fair assessment of the various organizational maturity levels in the Ethiopian business sector.

Overall, the respondents' demographic profile shows that the study included a diverse, experienced, and informed set of participants. Their substantial work experience, solid educational backgrounds, and representation from companies of all ages enhance the validity and applicability of the study's conclusions. Additionally, the results are certain to represent a wide range of viewpoints within Ethiopia's changing capital market due to the demographic diversity.

4.3. Descriptive analysis

Table 4.3 Legal regulatory Framework

Code	Statement		Level Of Agreement					Total	statistics	
			Strongly disagree	Disagree	Not sure	Agree	Strongly Agree		Mean	Standard Deviation
LRF 1	Ethiopia’s securities law complies with international standard for initial public offering	F	32	58	25	12	2	129	2.18	0.964
		%	24.8%	45.0%	19.4%	9.3%	1.6%	100%		
LRF 2	The regulatory frame ensures transparency in financial disclosure.	F	28	49	30	18	4	129	2.39	1.070
		%	21.7%	38.0%	23.3%	14.0%	3.1%	100%		
LRF 3	Investor protection mechanisms (e.g. dispute resolutions) are effective.	F	65	40	15	7	2	129	1.77	0.964
		%	50.4%	31.0%	11.6%	5.4%	1.6%	100%		
LRF 4	Regulatory guidelines for initial public offering (IPOs) are clear and accessible in Ethiopia.	F	35	52	25	14	3	129	2.21	1.036
		%	27.1%	40.3%	19.4%	10.9%	2.3%	100%		
LRF 5	The current regulatory framework in Ethiopia supports the process of Initial Public Offerings (IPOs).	F	54	45	20	8	2	129	1.91	0.980
		%	41.9%	34.9%	15.5%	6.2%	1.6%	100%		

Source: SPSS 20 Output Based On Survey Data, 2025

Interpretation of Table 4.3: Legal Regulatory Framework

There is a notable lack of confidence in the data for LRF 1 ("Ethiopia's securities law complies with international standards for IPOs"). Just 10.9% of respondents said they agreed or strongly agreed, whereas 69.8% said they disagreed or strongly disagreed. This generally unfavorable opinion is supported by the mean score of 2.18 (on a scale of 1 = strong disagreement and 5 = strong agreement) and standard deviation of 0.964. This implies that stakeholders believe Ethiopia's securities laws are still out of step with international initial public offerings (IPO) standards, which may make it more difficult to draw in foreign investors.

The outlook is marginally better but still crucial in LRF 2, which evaluates whether the regulatory system guarantees transparency in financial disclosure. Just 17.1% of respondents agreed or strongly agreed, compared to almost 59.7% who disagreed or strongly disagreed. The mean value of 2.39 and standard deviation of 1.070, Shows general unhappiness but a little more optimism than LRF 1. Investor trust depends on financial disclosures being transparent, and this finding suggests that present disclosure procedures are perceived as being insufficiently transparent.

The perception is even more unfavorable when it comes to investor protection methods like dispute resolution (LRF 3). With 31.0% disagreeing and half (50.4%) strongly disagreeing, the mean score was 1.77 and standard deviation of 0.964, the lowest of these questions. Just 7% of respondents agreed or strongly agreed. This suggests that the Ethiopian market is very concerned about the absence of robust investor protection, which may discourage both domestic and foreign investors from taking part in initial public offerings (IPOs).

The accessibility and lucidity of IPO regulatory standards are examined in LRF 4. In this case, 67.4% of respondents disagreed or strongly disagreed, indicating that they thought the instructions were confusing or hard to find. This outcome is supported by the mean score of 2.21 and standard deviation of 1.036. Lack of easily understandable regulations can deter companies from considering listings in a market that is attempting to increase its IPO activity and expose issuers and investors to needless legal risk.

Respondents were asked in LRF 5 if IPO procedures are supported by the regulatory framework as a whole. With a mean score of 1.91 and standard deviation of 0.980, this item demonstrated a noticeably pessimistic viewpoint. Just 7.8% of respondents indicated some degree of agreement,

while 76.8% disagreed or strongly disagreed. This implies that IPO activities are generally viewed as being unsupported by the current framework, which supports the general belief that regulatory reform is desperately needed to facilitate the growth of the capital market.

The interviewed respondent indicates, Ethiopia's IPO regulatory framework has a number of serious flaws that must be fixed. These include out-of-date laws, a lack of adequate funding for the Ethiopian Securities Authority, and the lack of a fully functional stock exchange, all of which contribute to misunderstandings and inefficiencies. Potential investors are also mistrustful due to unclear valuation techniques and a lack of investor education. The IPO process is made more difficult by a lack of qualified financial intermediaries and insufficient disclosure rules currently in place. Market development is further hampered by overlapping legislation and cultural opposition to public ownership, necessitating extensive reforms. By putting in place a consistent reporting framework, extending disclosure obligations to include comprehensive financial insights, requiring timely updates, and utilizing technology for real-time data sharing, Ethiopia may increase disclosure and transparency and draw in more investors. Increased regulatory supervision, independent third-party audits, and investor education programs will all improve compliance and confidence. Ethiopia can establish a more transparent environment that attracts both domestic and foreign investors by implementing these measures.

In conclusion, respondents consistently expressed dissatisfaction with Ethiopia's legal and regulatory environment surrounding initial public offerings (IPOs) across all five statements. The main themes that emerged were that the overall framework does not promote IPO growth, investor protections are weak, transparency is inadequate, laws are not internationally aligned, and guidelines are unclear. All of these issues together represent significant barriers to Ethiopia's capital market development, underscoring the urgent need for comprehensive legal and regulatory reforms to boost investor confidence and firm participation in public markets.

Table 4.4 Corporate Governance Practice

Code	Statement		Level Of Agreement					Total	statistics	
			Strongly disagree	Disagree	Not sure	Agree	Strongly Agree		Mean	Standard Deviation
CGP 1	Companies in Ethiopia maintain independent and diverse board.	F	20	35	52	18	4	129	2.62	1.009
		%	15.5%	27.1%	40.3%	14.0%	3.1%	100%		
CGP 2	Audit committees ensure accurate and transparent financial reporting.	F	15	30	40	35	9	129	2.95	1.120
		%	11.6%	23.3%	31.0%	27.1%	7.0%	100%		
CGP 3	There are clear accountabilities among corporate leader.	F	25	40	58	5	1	129	2.36	0.864
		%	19.4%	31.0%	45.0%	3.9%	0.8%	100%		
CGP 4	Most companies separate the role of CEO and board chair.	F	45	52	20	10	2	129	2.01	0.980
		%	34.9%	40.3%	15.5%	7.8%	1.6%	100%		

Source: SPSS 20 Output Based On Survey Data, 2025

Interpretation of Table 4.4: Corporate Governance Practice

According to the data, there is a moderate degree of doubt regarding CGP 1 ("Companies in Ethiopia maintain independent and diverse boards"). Only 17.1% of respondents agreed or strongly agreed with the assertion, and 40.3% were unsure ("Not sure"). In contrast, 42.6% of respondents disagreed or strongly disagreed with the statement. A tendency toward disagreement is shown by the mean score of 2.62 and standard deviation of 1.009. This demonstrates that a large number of respondents think Ethiopian businesses have not yet fully adopted diverse and independent board structures, which are critical for sound corporate governance.

Compared to other sections, the comments on CGP 2 ("Audit committees ensure accurate and transparent financial reporting") are comparatively more positive. 34.9% disagreed or strongly disagreed, compared to 34.1% who agreed or strongly agreed. The mean score of 2.95 and standard deviation of 1.120, which is nearer the midpoint of 3.0, indicates a somewhat balanced perspective that is marginally more positive than negative. Given that 31.0% of respondents are doubtful; this indicates that there is still some doubt regarding the function of audit committees in fostering openness.

The answers raise important issues when evaluating CGP 3 ("There are clear accountabilities among corporate leaders"). Just 4.7% of respondents agreed or strongly agreed, compared to 50.4% who disagreed or strongly disagreed. A tendency for disagreement is shown by the mean score of 2.36 and standard deviation of 0.864. The idea that leadership responsibility is still unclear is supported by high levels of confusion (45.0% selecting "Not sure"), which may be a reflection of issues with corporate governance or enforcement systems.

Particularly troubling seems to be the leadership separation issue in CGP 4 ("Most companies separate the roles of CEO and board chair"). Just 9.4% of respondents agreed or strongly agreed, compared to 75.2% who disagreed or strongly disagreed. Overall, the mean of 2.01 and standard deviation of 0.980 indicates a high degree of disagreement. This suggests that a large number of Ethiopian businesses may not yet be following the optimal governance practice of keeping these two influential positions apart, which could result in conflicts of interest and concentrated power at the highest levels.

The interviewed respondent indicates, Ethiopian businesses should give top priority to important internal reforms in order to guarantee a smooth transition. These reforms should include establishing clear accountability rules and bolstering governance structures through the creation of capable, independent boards. Building a competent management team, optimizing operations for efficiency and improving financial reporting systems to meet regulatory requirements are all crucial tasks. Effective communication and regulatory compliance also depend on creating a thorough investor relations plan and making sure you are prepared legally and legally. Cultural preparedness can lessen resistance to change by encouraging responsibility and transparency inside the company. Investor confidence is weakened by common corporate governance flaws such as a lack of independent board monitoring, opaque decision-making, a lack of internal controls, and cultural opposition to best practices. For Ethiopian businesses to successfully complete the IPO process and lay a solid foundation for future expansion, these problems must be resolved through extensive changes.

In conclusion, the information suggests that corporate governance issues in Ethiopian businesses continue to exist. Even while audit committees are generally rated higher, there is considerable worry about matters like board independence, leadership accountability, and job separation. Limited communication and transparency regarding governance methods within organizations

may also be implied by the large percentage of "Not sure" responses across statements. To increase investor trust and bring Ethiopian corporate governance into line with international best practices, these areas must be improved.

Table 4.5 Financial Literacy

Code	Statement		Level Of Agreement					Total	statistics	
			Strongly disagree	Disagree	Not sure	Agree	Strongly Agree		Mean	Standard Deviation
FL 1	The general public understands how capital markets works.	F	90	20	13	4	2	129	1.51	0.911
		%	69.8%	15.5%	10.1%	3.1%	1.6%	100%		
FL 2	Potential investors are aware of the risk and benefit of initial public offering (IPO).	F	78	26	13	10	2	129	1.70	1.035
		%	60.5%	20.2%	10.1%	7.8%	1.6%	100%		
FL 3	Financial education programs effectively promote market participation.	F	45	32	26	19	7	129	2.31	1.242
		%	34.9%	24.8%	20.2%	14.7%	5.4%	100%		
FL 4	resources available to enhance financial literacy among potential investors in Ethiopia.	F	65	39	13	10	2	129	1.80	1.011
		%	50.4%	30.2%	10.1%	7.8%	1.6%	100%		
FL 5	Financial literacy gaps significantly impact initial public offering (IPO) success rates.	F	26	13	6	52	32	129	3.40	1.471
		%	20.2%	10.1%	4.7%	40.3%	24.8%	100%		

Source: SPSS 20 Output Based On Survey Data, 2025

Interpretation of Table 4.5: Financial Literacy

According to the data, the Ethiopian public has a very low level of financial literacy with regard to FL 1 ("The general public understands how capital markets work"). An overwhelming 85.3% of respondents disagreed with the statement, with 69.8% strongly disagreeing and another 15.5% disagreeing. There is broad agreement that most people don't understand the fundamentals of how capital markets work, as evidenced by the mean score of 1.51 and standard deviation of 0.911. This draws attention to a significant obstacle to increased market development and participation.

A similar pattern of worry can be seen for FL 2 ("Potential investors are aware of the risks and benefits of initial public offering (IPO)"). 20.2% disagreed and 60.5% strongly disagreed, indicating that many prospective investors lack sufficient knowledge about initial public offerings. The mean of 1.70 and standard deviation of 1.035 further support this conclusion. Given the low levels of awareness, focused educational initiatives are desperately needed to give investors the risk-assessment abilities that are vital to a healthy initial public offering (IPO) market.

While still alarming, the results for FL 3 ("Financial education programs effectively promote market participation") are a little more balanced. 20.1% were unsure, 24.8% disagreed, and 34.9% strongly disagreed. A mean of 2.31 and a comparatively higher standard deviation of 1.242 resulted from a small positive response (20.1% agreed or strongly agreed). This implies that there is a lack of consensus regarding the efficacy of current financial education programs in promoting wider market participation.

The outcomes in FL 4 ("There are sufficient resources available to enhance financial literacy among potential investors in Ethiopia") are still unfavorable. Just 9.4% agreed or strongly agreed, while 30.2% disagreed and 50.4% strongly disagreed. There is broad agreement that there is a dearth of resources aimed at advancing financial literacy, as indicated by the mean of 1.80 and standard deviation of 1.011. The low comprehension and participation rates noted in earlier statements are probably a result of this deficiency.

Interestingly, a different perspective is offered by FL 5 ("Financial literacy gaps significantly impact IPO success rates"). With 40.3% agreeing and 24.8% strongly agreeing, the majority of respondents recognized the importance of financial literacy. The standard deviation of 1.471 and the mean score of 3.40, which is the highest of the five statements, indicate a wider range of viewpoints but a general understanding that a significant obstacle to IPO success is a lack of financial literacy. According to this realization, closing literacy gaps may greatly enhance IPO results.

The interviewed respondent indicate The absence of independent oversight on boards of directors, which are frequently controlled by family members or insiders and result in conflicts of interest and diminished accountability, is the most prevalent corporate governance flaw in

Ethiopian companies looking to go public. Investor confidence and efficient governance are weakened by this. Furthermore, unclear disclosure policies and a lack of transparency in decision-making procedures make it difficult to communicate with stakeholders about risks and financial health, which turns off potential investors. Inadequate risk management and internal controls plague many businesses, which leads to operational inefficiencies and financial misreporting. The development of governance is made more difficult by cultural resistance to implementing best practices. Improving financial education programs is essential to addressing these problems; tactics should include adjusting content to the audience's needs, implementing interactive teaching techniques, utilizing technology to increase accessibility, enlisting the help of community leaders to foster trust, and setting up ongoing feedback systems. Ethiopian businesses can successfully complete the initial public offering (IPO) process and enable people to make wise financial decisions by putting these reforms into practice.

In conclusion, the data unequivocally demonstrates that one of the biggest obstacles to Ethiopia's attempts to expand its capital market is financial literacy. Resources are scarce, educational initiatives are seen as ineffectual, and public knowledge of markets and initial public offerings is extremely low. Nonetheless, there is broad consensus that raising financial literacy would directly benefit initial public offerings (IPOs) and, consequently, the larger capital market ecosystem. These results highlight how urgently comprehensive, easily accessible, and effective financial education programs are needed throughout Ethiopia.

Table 4.6 Technological Barrier

Code	Statement		Level Of Agreement					Total	statistics	
			Strongly disagree	Disagree	Not sure	Agree	Strongly Agree		Mean	Standard Deviation
TB 1	Cyber security risks are a significant concern for the Ethiopian capital market.	F	103	19	4	3	0	129	1.28	0.637
		%								
			79.8%	14.7%	3.1%	2.3%	0.0%			
TB 2	Fintech solutions are widely available to companies in Ethiopia.	F	90	26	4	6	3	129	1.50	0.936
		%								
			69.8%	20.2%	3.1%	4.7%	2.3%			
TB 3	The use of digital platforms for stock trading is well-developed and accessible in	F	97	19	4	6	3	129	1.44	0.935
		%								
			75.2%	14.7%	3.1%	4.7%	2.3%			
TB 4	Companies in Ethiopia use digital platforms to communicate with investors effectively.	F	77	32	12	6	2	129	1.64	0.943
		%								
			59.7%	24.8%	9.3%	4.7%	1.6%			

Source: SPSS 20 Output Based On Survey Data, 2025

Interpretation of Table 4.6: Technological Barriers

According to the findings of TB 1 ("Cyber security risks are a significant concern for the Ethiopian capital market"), there is broad consensus that cyber security is a serious problem. 79.8% of respondents strongly disagreed with the statement, which may seem unclear at first, but given the context and the extremely low mean of 1.28, it seems possible that the question was poorly worded or misunderstood. Typically, a high "strongly disagree" rating would imply that participants do not consider cyber security risks to be important, which could indicate that the Ethiopian capital market's cyber security threats are underestimated or that participants are unclear about the question. The low standard deviation (0.637) indicates that respondents' opinions were fairly consistent.

Most people were skeptical about TB 2 ("Fintech solutions are widely available to companies in Ethiopia"). A mean of 1.50 and a comparatively moderate standard deviation of 0.936 resulted from 69.8% strongly disagreeing and 20.2% disagreeing. These findings unequivocally imply that Ethiopian businesses do not have easy access to fintech solutions. Ethiopia's capital market may not be able to modernize and innovate due to a lack of technological infrastructure supporting financial services.

The responses in TB 3 ("The use of digital platforms for stock trading is well-developed and accessible in Ethiopia") maintain the pattern of underdeveloped technology. Nearly 90% of responses were negative, with 75.2% strongly disagreeing and 14.7% disagreeing. Strong agreement that digital platforms for stock trading are not well-developed or easily accessible is once again highlighted by the mean of 1.44 and standard deviation of 0.935. This illustrates the substantial gaps in digital infrastructure that must be filled in order to establish a functional, contemporary capital market system.

Regarding TB 4 ("Companies in Ethiopia use digital platforms to communicate with investors effectively"), only 6.3% agreed or strongly agreed, compared to 59.7% who strongly disagreed and 24.8% who disagreed. The mean of 1.64 indicates a generally highly critical view, albeit one that is marginally less negative than in TB 2 and TB 3. This demonstrates how ineffective corporate communication via digital platforms is, restricting the transparency, investor interaction, and trust-building initiatives required for a productive marketplace.

The interviewed respondent indicate Fintech innovation—in particular, e-trading—has the potential to greatly speed up the growth of the capital market by improving accessibility for a wider range of investors, including retail participants, which raises trading volumes and liquidity. By simplifying procedures and reducing the need for middlemen, e-trading platforms increase efficiency and lower transaction costs, which attracts more investors. Furthermore, using artificial intelligence and data analytics offers real-time insights and customized strategies, enabling investors to make well-informed choices. The IPO process is hampered by a number of technological obstacles, most notably the difficulty in putting in place reliable digital reporting systems that guarantee accuracy and compliance and cyber security issues that put private financial data at risk. Lack of technological platform integration frequently results in inefficiencies by making communication and due diligence more difficult. Due to a lack of resources, many businesses also struggle to adopt new technologies, and poor employee training can make the IPO process even more difficult. Companies must address these issues if they want to improve investor appeal, expedite IPO procedures, and create a more active capital market.

In conclusion, the information clearly illustrates the major technological and digitalization issues that Ethiopia's capital market is currently confronting. Many people believe that fintech is not widely available, that digital trading platforms are not well developed, and that digital

communication between businesses and investors is inefficient. A thriving, contemporary Ethiopian capital market depends on significant investment in technology infrastructure, cyber security education, and digital platform development. This is in addition to the potential underestimation or misunderstanding of cyber security risks.

Table 4.7 Initial Public Offering

Code	Statement		Level Of Agreement					Total	statistics	
			Strongly disagree	Disagree	Not sure	Agree	Strongly Agree		Mean	Standard Deviation
IPO 1	Ethiopian firms are prepared to meet international IPO standards.	F	65	39	13	10	2	129	1.798	1.011
		%	50.4%	30.2%	10.1%	7.8%	1.6%	100%		
IPO 2	Local investors have high confidence in IPO-listed companies.	F	51	45	13	13	7	129	2.070	1.180
		%	39.5%	34.9%	10.1%	10.1%	5.4%	100%		
IPO 3	Ethiopia's capital market ecosystem can sustain long-term IPO growth.	F	39	52	20	13	5	129	2.171	1.091
		%	30.2%	40.3%	15.5%	10.1%	3.9%	100%		
IPO 4	IPOs will significantly boost Ethiopia's economic development.	F	33	26	19	39	12	129	2.775	1.365
		%	25.6%	20.2%	14.7%	30.2%	9.3%	100%		

Source: SPSS 20 Output Based On Survey Data, 2025

Interpretation of Table 4.7: Initial Public Offering

Participants' answers show a great deal of skepticism regarding IPO 1 ("Ethiopian firms are prepared to meet international IPO standards"). More than 80% held a negative opinion, with 30.2% disagreeing and 50.4% strongly disagreeing. The majority of respondents felt Ethiopian companies were not yet prepared to meet the demanding requirements of international IPO standards, which is supported by the mean score of 1.798 and the standard deviation of 1.011. This implies that in order to prepare businesses for the global financial markets, regulatory strengthening and capacity building are urgently needed.

Though somewhat less extreme, opinions about IPO 2 ("Local investors have high confidence in IPO-listed companies") are still mainly negative. About 74.4% of respondents expressed a lack

of confidence, with 39.5% strongly disagreeing and 34.9% disagreeing. While the standard deviation of 1.180 indicates a little more variation among responses, the mean of 2.070 indicates a slightly better but still negative average perception. This suggests that there is comparatively little investor confidence in IPO-listed businesses, which may make future public offerings less successful.

The skepticism persists in IPO 3 ("Ethiopia's capital market ecosystem can sustain long-term IPO growth"). The mean score of 2.171 indicates a generally pessimistic outlook, with 40.3% disagreeing and 30.2% strongly disagreeing. Although the majority of respondents questioned the system's long-term viability, there was some variation in viewpoints, as indicated by the moderate standard deviation (1.091). These findings imply that the regulatory framework and market infrastructure in place today are not yet thought to be strong enough to sustain continuous initial public offerings (IPOs) in the long run.

It's interesting to note that IPO 4's tone slightly changes ("IPOs will significantly boost Ethiopia's economic development"). Here, a noteworthy 30.2% agreed and 9.3% strongly agreed, despite the fact that 25.6% strongly disagreed and 20.2% disagreed. A higher standard deviation (1.365) suggests more diverse viewpoints, and the mean score increases to 2.775, the highest of the four IPO-related statements. This implies that there is more hope for the possible economic advantages that initial public offerings (IPOs) could ultimately bring to Ethiopia, even in the face of doubts about the preparedness of businesses and investors at the moment.

According to the data, there is currently a lack of confidence in Ethiopia's IPO readiness and supporting ecosystem. There are also many worries about investor trust, company readiness, and the market's capacity to support IPO activity. Nonetheless, there is some optimism that IPOs could be a potent instrument for economic growth if they are developed properly. These findings highlight the pressing need for changes to strengthen Ethiopia's initial public offering (IPO) environment going forward by enhancing corporate governance, financial transparency, regulatory clarity, and public awareness.

4.3. Comparison of Ethiopia's IPO Challenges with Other African Markets

4.3.1. Ethiopia's Legal and Regulatory Challenges in Comparative Perspective

Ethiopia's weak legal and regulatory systems, which fall short of international norms, are at the heart of the country's IPO difficulties. Similar to problems in markets like Uganda and Egypt, weak investor protections, a lack of transparency and disjointed regulations discourage both foreign and domestic investors. According to Samuel K. Sejjaka (2011), IPO activity in Uganda has historically been suppressed by governance flaws like the lack of independent boards and inadequate financial disclosures. According to Osman Wagdi (2018), Egypt's difficulties with behavioral barriers to initial public offerings (IPOs) and regulatory opacity highlight a regional trend. In contrast to nations like South Africa, where strong legal frameworks and conformity to international standards have promoted a more vibrant IPO ecosystem, Ethiopia's regulatory gaps are more severe. Addressing these systemic issues through comprehensive reforms is critical for Ethiopia to unlock its capital market potential.

4.3.2. Corporate Governance Deficits: A Regional Hurdle

Ethiopia's IPO readiness is hampered by corporate governance flaws, which are a problem throughout Africa. These flaws include a lack of board independence and leadership accountability. In Ethiopia, family-owned companies frequently lack official governance frameworks, which make investors wary. Similar problems were encountered in Uganda, where Sejjaka (2011) connected poor IPO readiness to the dominance of single-party boards. Ethiopia has stagnated in its efforts to promote board independence, whereas Uganda has made strides in this regard. Egypt has started regulatory reforms to raise stakeholder awareness while addressing governance gaps, with varying degrees of success. Investor mistrust is exacerbated by Ethiopia's high percentage of "Not sure" answers in governance surveys, which indicates a serious communication breakdown. Ethiopia must prioritize governance reforms to bring itself into line with international best practices and restore market confidence, taking a cue from its regional peers.

4.3.3. Financial Literacy: A Barrier to Market Participation

Ethiopia's low level of financial literacy significantly restricts public participation in initial public offerings (IPOs); this issue is prevalent but not equally addressed in other African markets. Ethiopia's efforts have not been successful, which has resulted in low investor participation, whereas Uganda and Kenya have started focused financial education programs to demystify capital markets. According to Ahmed et al. (2022), financial literacy lessens information asymmetry, which is crucial for IPO success and is demonstrated by Kenya's expanding retail investor base as a result of NGO-supported initiatives. In addition to reducing demand for initial public offerings (IPOs), Ethiopia's low level of financial literacy also makes businesses ill-equipped to comply with disclosure regulations. Ethiopia's market development could be accelerated by bridging this gap through collaborations and grassroots education, as is the case in Kenya.

4.3.4. Technological Gaps and Digitalization Delays

IPO efficiency is hampered by Ethiopia's antiquated trading platforms and underdeveloped fintech infrastructure, which stands in stark contrast to developments in South Africa and Kenya. Technology can improve market accessibility and transparency, as seen by South Africa's digital trading innovations on the JSE and Kenya's integration of mobile money (such as M-Pesa). Ethiopia's lack of digitalization makes it harder for businesses and investors to communicate, and cyber security threats are still being ignored, a problem that Nigeria and Ghana are now resolving with regulatory changes. Ethiopia must prioritize technology investments, update platforms, and implement cyber security frameworks in order to compete regionally and draw in IPO-ready companies.

4.3.5. Investor Confidence and the Path Forward

Ethiopia's low investor confidence, which stems from regulatory uncertainties and governance ambiguities, stands in stark contrast to developments in markets such as South Africa and Kenya. While South Africa's JSE uses strict governance to draw in international capital, the Nairobi Securities Exchange (NSE) increased trust through literacy initiatives and transparency reforms. Because of systemic inertia, Ethiopia's hopes regarding initial public offerings (IPOs) as economic stimulants have not materialized. Ethiopia needs to improve disclosures, raise public awareness, and implement clear regulations in order to learn from Egypt's stakeholder engagement tactics and Nigeria's governance reforms. Ethiopia can emulate regional success

stories and turn its initial public offering (IPO) landscape into a force for inclusive growth by tackling these interrelated issues.

4.4. Correlation Analysis

The degree of relationship between variables is described by correlation. Correlation analysis quantifies the strength of the linear relationship between the dependent and independent variables (Brooks, 2008). The correlation coefficient has a value between -1 and 1. A perfect positive link between two variables is shown by a correlation value of 1, whilst a perfect negative relationship is indicated by a correlation coefficient of -1. Conversely, there is no association between variables when the correlation coefficient is zero. McDaniel & Gates (2006) state that a correlation coefficient value between 0.1 and 0.29 denotes a weak relationship between the items. A moderate association between two variables is indicated by a correlation coefficient between 0.3 and 0.49, whereas a strong relationship between two variables is indicated by a correlation value larger than 0.5. Based on this as noted by Gujarati (2004), most generally used bi-variant correlation coefficient, normally known as Pearson correlation were utilized in order to find out the relationship between dependent variable and independent variable.

Table 4.8 Correlation Matrix

		Correlations				
		Legal Regulatory Framework	Corporate Governance Practice	Financial Literacy	Technological Barrier	Initial Public Offering
Legal Regulatory Framework	Pearson Correlation	1	.954**	.797**	.865**	.978**
	Sig. (2-tailed)		.000	.000	.000	.000
	N	129	129	129	129	129
Corporate Governance Practice	Pearson Correlation	.954**	1	.751**	.920**	.961**
	Sig. (2-tailed)	.000		.000	.000	.000
	N	129	129	129	129	129
Financial Literacy	Pearson Correlation	.797**	.751**	1	.727**	.817**
	Sig. (2-tailed)	.000	.000		.000	.000
	N	129	129	129	129	129
Technological Barrier	Pearson Correlation	.865**	.920**	.727**	1	.880**
	Sig. (2-tailed)	.000	.000	.000		.000
	N	129	129	129	129	129
Initial Public Offering	Pearson Correlation	.978**	.961**	.817**	.880**	1
	Sig. (2-tailed)	.000	.000	.000	.000	
	N	129	129	129	129	129

** . Correlation is significant at the 0.01 level (2-tailed).

Source: SPSS 20 Output Based On Survey Data, 2025

Interpretation of Table 4.8: Correlation Matrix

Overview of Correlations

A correlation matrix illustrating the connections between five important variables—the legal regulatory framework, corporate governance practices, financial literacy, technological barrier, and initial public offering (IPO)—is shown in Table 4.8. In the context of Ethiopia's capital market, the high correlation coefficients show that these factors are strongly interdependent, meaning that advancements or failures in one area could have a substantial effect on the others.

Legal Regulatory Framework and Corporate Governance

At a significance level of $p < 0.01$ and a correlation of 0.954, the relationship between the Legal Regulatory Framework and Corporate Governance Practice is exceptionally strong. This implies that corporate governance procedures will probably improve in tandem with the legal framework. A strong legal framework in Ethiopia can promote improved governance by motivating businesses to embrace open and responsible practices. Building investor trust and encouraging a more active capital market depend heavily on this synergy.

Financial Literacy's Role

Improving financial literacy can have a positive impact on how people view legal and governance frameworks, according to the correlation between financial literacy and the Legal Regulatory Framework (0.797) and Corporate Governance Practice (0.751). Raising the general public's and prospective investors' financial literacy in Ethiopia may result in a better comprehension and confidence in the country's corporate governance and regulatory environment, which will ultimately encourage more people to participate in initial public offerings (IPOs).

Technological Barriers and Governance

Effective governance is closely linked to technological advancements, as evidenced by the noteworthy correlation (0.920) between technological barriers and corporate governance practice. Improving governance practices in Ethiopia can be achieved by tackling technological obstacles like cyber security and access to digital platforms. According to this correlation, technology investments may improve corporate accountability and transparency, which would improve the investment climate as a whole.

Technological Barriers and IPOs

The importance of technology in supporting successful initial public offerings is further highlighted by the correlation between technological barriers and IPOs (0.880). Overcoming technical obstacles can result in more seamless IPO procedures in Ethiopia, encouraging more businesses to think about going public. According to the data, successful initial public offerings

(IPOs) are more likely to occur when technological infrastructure advances, which could spur economic growth.

In conclusion, the associations shown in Table 4.8 highlight how closely related Ethiopia's legal and regulatory environment, corporate governance, financial literacy, technological obstacles, and initial public offering (IPO) success are. Improving any one of these areas could have a domino effect and result in improvements everywhere. Ethiopia should give top priority to reforms that improve legal frameworks, advance financial literacy, make technological investments, and fortify corporate governance procedures in order to create a more resilient capital market. Building investor confidence and promoting economic growth through a flourishing initial public offering (IPO) market require this all-encompassing strategy.

4.5 Inferential Statistics

The study further multiple regression to determine the IPO Readiness in Ethiopia; assessing regulatory frame work, corporate governance, financial literacy and technological challenges

4.5.1 Regression Analysis

Regression analysis is the statistical technique that identifies the relationship between two or more quantitative variables: a dependent variable, whose value is to be predicted, and an independent or explanatory variable (or variables), about which knowledge is available. The technique is used to find the equation that represents the relationship between the variables. Multiple regressions provide an equation that predicts one variable from two or more independent variables. The researcher conducted a multiple regression analysis so as to test relationship among variables (independent) on the financial performance of manufacturing companies in Kenya. The researcher applied the statistical package for social sciences (SPSS 20) to code, enter and compute the measurements of the multiple regressions for the study. Coefficient of determination explains the extent to which changes in the dependent variable can be explained by the change in the independent variables or the percentage of variation in the dependent variable (IPO Readiness in Ethiopia) that is explained by all the four independent variables (Regulatory framework, corporate governance, financial literacy and technological challenges). The study adopted multiple regression guided by the following model: $IPO = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + et$

Table 4.9. Coefficients

Coefficients a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B	
	B	Std. Error	Beta			Lower Bound	Upper Bound
1 (Constant)	-4.164	.854		-4.874	.000	-5.855	-2.473
Legal Regulatory Framework	.554	.055	.583	10.127	.000	.446	.663
Corporate Governance Practice	.385	.079	.328	4.861	.000	.228	.541
Financial Literacy	.314	.075	.111	4.209	.000	.166	.461
Technological Barrier	-.018	.110	-.007	-.167	.868	-.237	.200

a. Dependent Variable: Initial Public Offering

The regression analysis reveals key insights into the factors influencing the likelihood of an Initial Public Offering (IPO). The constant term is -4.164, indicating the baseline level of the dependent variable when all predictors are zero. Among the predictors, the legal regulatory framework shows a significant positive relationship, with a coefficient of 0.554, suggesting that for each unit increase in this framework, the likelihood of an IPO increases by 0.554 units, holding other variables constant ($p < 0.001$). Similarly, corporate governance practices contribute positively, with a coefficient of 0.385, indicating that improved governance is associated with a 0.385 unit increase in IPO likelihood ($p < 0.001$). Financial literacy also plays a crucial role, as each unit increase corresponds to a 0.314 unit increase in IPO likelihood ($p < 0.001$). In contrast, the technological barrier has a coefficient of -0.018, indicating a negligible negative effect on IPO likelihood, which is not statistically significant ($p = 0.868$). Overall, the findings highlight

that the legal regulatory framework, corporate governance, and financial literacy are significant predictors of IPO success, while technological barriers do not significantly impact this outcome.

CHAPTER FIVE

5. CONCLUSION AND RECOMMENDATION

This Chapter consists of the conclusion drawn from the analysis part and the recommendation forwarded by the researcher in order to improve the practice of Initial Public Offering (IPO) in Ethiopia.

5.1 Conclusion

The main aim of this study to analyze the key factors influencing IPO readiness in Ethiopia in assessing regulatory framework, corporate governance practice, financial literacy and technological barriers

Legal Regulatory Framework

Stakeholders are highly dissatisfied with Ethiopia's legal and regulatory framework for initial public offerings (IPOs), mainly because securities laws do not align with international standards. The nation's capacity to draw in foreign investors, which is essential for economic expansion, is hampered by this division. There is an urgent need for reform, as evidenced by the low levels of trust in investor protection and financial disclosure transparency. The Ethiopian capital market might find it difficult to take off without significant advancements in these areas, which would restrict opportunities for both foreign and domestic investors.

In order to align Ethiopia's capital market with its larger economic objectives—particularly in promoting job creation—it is imperative that these regulatory issues be resolved. Ethiopia can foster an environment that is more conducive to initial public offerings (IPOs) by enacting comprehensive legal reforms that boost investor confidence and make regulatory guidelines more clear. As a result, businesses will be more inclined to look for government funding, which will promote growth and innovation. Through more investment and job opportunities, the IPO landscape's potential will be unlocked by the ensuing capital market expansion, which also promotes sustainable economic growth.

Corporate Governance Practice

The evaluation of corporate governance procedures in Ethiopia reveals important barriers that reduce the effectiveness and legitimacy of companies. Due to widespread skepticism about the independence and diversity of boards, as well as issues with leadership accountability and the distinct separation of roles, many businesses have not yet fully adopted good governance principles. Stakeholder trust, which is crucial for creating a positive business environment, is further damaged by the opaqueness and lack of communication surrounding governance structures. These results highlight the urgent need for changes that improve corporate governance while also conforming to global best practices.

Ethiopian companies can make a substantial contribution to the nation's economic objectives by giving corporate governance reforms top priority, especially when it comes to luring investment and creating jobs. Better governance structures will boost investor trust, which will facilitate businesses' access to funding through IPOs and other means. This can then spur company growth and innovation, which can result in more job openings. In the end, Ethiopian businesses run the risk of losing their attractiveness in the global market if these governance changes are not made, which would restrict their ability to support long-term economic expansion and job creation in the area.

Financial Literacy

According to the results of Ethiopia's financial literacy survey, a large section of the populace does not comprehend the workings of the capital market or the complexities of initial public offerings (IPOs), which pose a serious obstacle to the expansion of the capital market. This ignorance significantly impairs the capacity to draw in possible investors and create a thriving market environment. The information emphasizes how urgently targeted educational programs that give people the fundamental knowledge and abilities needed for meaningful capital market participation are needed.

Ethiopia can develop a more knowledgeable investor base by giving priority to thorough and easily accessible financial literacy programs. This is essential for increasing market participation and eventually propelling economic growth. In addition to empowering people, increased financial literacy supports the general well-being and sustainability of the capital market

ecosystem. Businesses will have easier access to capital as more investors participate in initial public offerings (IPOs), which will support growth and job creation. Enhancing financial literacy therefore directly supports Ethiopia's economic objectives by creating an atmosphere that allows people and businesses to prosper and promotes sustainable economic growth.

Technological Barrier

Significant technological flaws that impede Ethiopia's capital market's growth and modernization are revealed by the evaluation. There are many infrastructure gaps, underdeveloped digital trading platforms, and general skepticism about fintech solutions. Ethiopia may find it difficult to draw in both foreign and domestic investors without significant technological investment, as nearly 90% of respondents voiced concerns regarding the usability and efficacy of these platforms. For businesses looking to raise money through initial public offerings (IPOs), this lack of confidence can limit opportunities and impede market growth.

Enhancements in technology infrastructure and digital communication between companies and investors must be given top priority in order to support Ethiopia's economic objectives. In addition to boosting investor confidence, improving transparency and trust via efficient digital platforms will also improve the climate for capital market participation. Ethiopia can improve its investment climate, promote innovation, and eventually create jobs by making investments in cyber security and putting strong digital communication plans in place. In addition to bolstering the capital market, this strategy will greatly advance the economic growth and prosperity of the country.

Initial Public Offering

Ethiopia's IPO readiness assessment identifies important issues that need to be resolved to boost market viability and investor confidence. The widespread doubt about Ethiopian companies' ability to meet international initial public offerings (IPO) standards highlights the pressing need for capacity building and regulatory reforms. The situation is made more difficult by local investors' low levels of trust in IPO-listed companies, which implies that the chances of successful IPOs may remain slim in the absence of significant advancements in corporate governance and financial transparency. These obstacles suppress the potential economic benefits

that initial public offerings (IPOs) could provide in addition to impeding the expansion of the capital market.

Despite these obstacles, Ethiopia has a great chance to use IPOs as a catalyst for job creation and economic expansion. The necessity for targeted reforms that improve the entire IPO ecosystem is highlighted by the acknowledgement of the significance of IPOs, despite the limitations imposed by the current environment. Ethiopia can foster a more IPO-friendly atmosphere by emphasizing regulatory clarity and raising public awareness. By addressing these important concerns, the nation will be in a better position to use initial public offerings (IPOs) as a crucial instrument for drawing in investment, encouraging company growth, and eventually assisting in the creation of jobs and long-term economic growth.

5.2. Recommendation

The findings of this study indicate a pressing need for Ethiopian firms to enhance compliance with international IPO standards. To address this, it is essential for regulatory bodies to develop and enforce clear guidelines that align with global practices. Workshops and training sessions for company executives and finance teams can be implemented to improve their understanding of these standards. Furthermore, fostering a culture of transparency in financial disclosures is critical; companies should be encouraged to adopt best practices in reporting to build investor trust and confidence.

In light of the identified weaknesses in investor protection mechanisms, it is vital to strengthen regulatory oversight. Establishing independent oversight bodies to monitor board activities and ensure adherence to corporate governance principles will help safeguard investor interests. Additionally, enhancing the education of potential investors about the IPO process is crucial. This can be achieved through public awareness campaigns and educational programs that inform investors about the risks and benefits associated with IPOs, thus empowering them to make informed decisions.

Lastly, addressing technological challenges is imperative for improving IPO readiness. Companies should invest in integrated technological platforms that streamline the IPO process, ensuring seamless communication and efficient operations. To mitigate cybersecurity concerns, implementing robust security measures and protocols to protect sensitive information is essential.

Collaborating with fintech firms can provide innovative solutions that enhance both the technological infrastructure and the overall security of the IPO process, ultimately facilitating a more attractive investment environment in Ethiopia.

5.3. Direction for further studies

Future studies ought to concentrate on a thorough analysis of Ethiopia's initial public offering (IPO) legal and regulatory environment. Comparative studies with other developing nations that have effectively brought their securities laws into compliance with international norms may be part of this. Researchers can offer Ethiopian policymakers practical suggestions by identifying best practices and efficient regulatory frameworks. Furthermore, examining the particular obstacles that prevent reforms from being implemented may provide guidance on how to successfully negotiate the complexities of legal adjustments, ultimately increasing the capital market's appeal to both domestic and international investors.

Furthermore, it is crucial to conduct a thorough analysis of corporate governance procedures in Ethiopian businesses. Future studies could use qualitative techniques like speaking with investors and company executives to examine the connection between investor confidence and governance structures. This method would assist in pinpointing the underlying reasons why governance procedures and the efficacy of current audit committees are viewed with suspicion. Researchers can improve the governance frameworks and general market credibility of Ethiopian companies by proposing customized solutions that tackle the particular difficulties they face.

Additional research in the field of financial literacy should evaluate the efficacy of current educational initiatives meant to improve public awareness of capital markets and initial public offerings. As financial literacy programs are put into place, longitudinal studies could monitor how investor behavior and market participation evolve over time. In order to reach a variety of demographics, research should also investigate cutting-edge methods of financial education, such as online resources and workshops held in communities. Stakeholders can cultivate a more knowledgeable investor base that is better prepared to interact with the capital market by identifying efficient methods for enhancing financial literacy.

Additionally, technological developments merit more research, especially in relation to Ethiopia's development of fintech solutions and digital trading platforms. In order to improve

infrastructure, research should concentrate on pinpointing the precise technological shortcomings that obstruct market expansion and investigating possible collaborations between the public and private sectors. Studies could also look at how cyber security helps build investor confidence and gauge how well-informed stakeholders are currently about this topic. Ethiopia can establish a more secure and effective capital market environment by giving priority to technological advancements.

Lastly, studies ought to look into how a flourishing IPO market might affect Ethiopia's overall economic growth. Quantitative studies that correlate IPO activity with measures of economic expansion, investment inflows, and job creation may be part of this. Gaining an understanding of these connections will enable stakeholders to see the wider effects of bolstering the IPO ecosystem. Additionally, research could look into how the general public views initial public offerings (IPOs) and their contribution to economic growth, which would help with explaining to prospective investors the advantages of participating in IPOs. Future studies can make a substantial contribution to the long-term expansion of Ethiopia's capital market by tackling these issues.

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APPENDIX

Questionnaires guide

Introduction to questionnaire

Dear respondents:

My name is Mohammed Ahmed, MSc student in Department of Accounting and Finance at Addis Ababa University. The aim of this questionnaire is to analyze the key Factors influencing IPO readiness in Ethiopia: Assessing regulatory framework, corporate governance, financial literacy and technological barrier. The information you provide in response to the items in the questionnaire will be used as a part of the data needed for the study. I would like to assure you that the information you provide will be used only for the purpose of achieving academic award. Your involvement is regarded as a great input to the quality of the research results. Hence, I believe that you will enlarge your assistance by participating in the study. Your honest and thoughtful response is invaluable.

Thank You for your cooperation

Best regards,

Mohammed Ahmed

MSc in Corporate Finance with the

Specialty of Investment Management student at Addis Ababa University

Department of Accounting and Finance

March 2025

General Instruction

This questionnaire contains two sections and four pages that will be expected to take approximately 10-15 minutes to complete. Please provide your response to the questions based on the instructions under each section. If you have comments or if you want to provide further explanation, please use the space provided at the end of the questionnaire.

Please note:

Writing your name is not required

N.B if you have any additional comments, clarification, information and suggestion you can contact the researcher in the following addresses

Name: Mohammed Ahmed

Mobile: +251911058881

E-mail: mohammedahmed8881@gmail.com.

Section one: Demographic variables of the respondents

Instruction: Please tick in the box that best reflects your answer to the questions.

1. Sex Male Female

2. What is your age?

31-40 41-50 51-65 >65

3. What is your educational status?

Degree Masters PHD

4. Work experience 1-5 6-10 11-15 16-20 >21

5. Firm Age 5-10 11-20 21-30 31-40 >41

Section two: Questions related to the study

The purpose of this section is to obtain information about how the key factors influencing IPO readiness in Ethiopia: Assessing regulatory framework, corporate governance, financial literacy and technological barrier. Instruction: please put tick mark in each column based on your level of agreement for each statement under each heading 1=strongly disagree (SDA), 2=Disagree (DA), 3=Not sure (NS), 4=Agree (A), 5=Strongly Agree (SA).

Questionnaires about the IPO readiness in Ethiopia: Assessing regulatory framework, corporate governance, financial literacy and technological barrier.

Legal Regulatory Framework						
S.No	Statement	Strongly disagree	Disagree	Not sure	Agree	Strongly Agree
1	Ethiopia's securities law complies with international standard for initial public offering (IPOs).					
2	The regulatory frame ensures transparency in financial disclosure.					
3	Investor protection mechanisms (e.g. dispute resolutions) are effective.					
4	Regulatory guidelines for initial public offering (IPOs) are clear and accessible in Ethiopia.					
5	The current regulatory framework in Ethiopia supports the process of Initial Public Offerings (IPOs).					
Corporate Governance Practices						
1	Companies in Ethiopia maintain independent and diverse board.					
2	Audit committees ensure accurate and transparent financial reporting.					
3	There are clear accountabilities among corporate leader.					
4	Most companies separate the role of CEO and board chair.					
Financial Literacy						
1	The general public understands how capital markets works.					
2	Potential investors are aware of the risk and benefit of initial public offering (IPO).					
3	Financial education programs effectively promote market participation.					
4	There are sufficient resources available to enhance financial literacy among potential investors in Ethiopia.					
5	Financial literacy gaps significantly impact initial public offering (IPO) success rates.					
Technological Barrier						
1	Cyber security risks are a significant concern for the Ethiopian capital market.					

2	Fintech solutions are widely available to companies in Ethiopia.					
3	The use of digital platforms for stock trading is well-developed and accessible in Ethiopia.					
4	Companies in Ethiopia use digital platforms to communicate with investors effectively.					
Initial Public Offering (IPO) Readiness						
1	Ethiopian firms are prepared to meet international IPO standards.					
2	Local investors have high confidence in IPO-listed companies.					
3	Ethiopia's capital market ecosystem can sustain long-term IPO growth.					
4	IPOs will significantly boost Ethiopia's economic development.					

If you have any comment please write in the following space

Interview questions

To analyze key factor influencing IPO readiness in Ethiopia: Assessing regulatory framework, corporate governance, financial literacy and technological barrier. The researcher conducted interview with CFO (Chief Finance Officer) and CEO (Chief Executive Officer), General Manager (GM), Deputy General Manager, (DGM) Finance Manager, (FM) and Chief Accountant the questions raised in the interview were

1. What is specific gaps do you see in Ethiopia's current regulatory framework for initial public offering?

2. How can disclosure and transparency requirements are improve to attract more investors?

3. What is internal reform should companies prioritize before going public?

4. Describe the most common corporate governance weakness in Ethiopian firms seeking initial public offering?

5. What are misconception do local investors have about stock markets risk?

6. How could financial education programs be made more effectives?

7. How could fintech innovation (e.g. e-trading) accelerate capital market growth?

8. What technological barriers (e.g. digital reporting, cyber security) hinder initial public offering process?

