Unlocking small and medium enterprises growth: The assessment of the role of capital market requirements in SMEs listing

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ABSTRACT

Access to growth finance remains a persistent constraint for small and medium enterprises (SMEs) in developing economies. Capital markets can provide an alternative source of long-term finance, but the regulatory, governance and disclosure requirements associated with public listing may impose substantial costs on smaller firms. This study examines whether perceived capital-market listing requirements and SME characteristics influence the financial growth prospects of SMEs in Tanzania. Drawing on Signalling Theory and Agency Theory, the study develops a model linking listing requirements and firm characteristics to SME financial growth. Quantitative data were collected from SMEs participating in the Dar es Salaam Stock Exchange Enterprise Acceleration Programme (DEAP), with 95 usable responses obtained from 100 questionnaires distributed. Partial Least Squares Structural Equation Modelling (PLS-SEM) was used to assess the measurement and structural models. The results show that perceived listing requirements have a statistically significant negative relationship with SME financial growth ($\beta = -0.229$, $p = 0.032$), whereas SME characteristics have a positive relationship with financial growth ($\beta = 0.521$, $p < 0.001$). The model explains 49.0% of the variance in financial growth and demonstrates predictive relevance. The findings suggest that capital-market regulation creates a tension between investor protection and SME accessibility, while organisational capacity enables SMEs to cope with capital-market requirements and strengthen growth prospects. The study contributes Tanzania-specific evidence to the limited literature on SME-oriented capital markets in developing economies.

Keywords: Agency Theory, Financial Growth, Small and Medium Enterprises, Stock Market Listing, Signaling Theory

I. INTRODUCTION

Small and medium enterprises (SMEs) play a role in employment creation, entrepreneurship development and economic development however one of the challenges of growth of the SMEs is the lack of working capital, investment, technology, market expansion and other factors (Dorasamy & Kikasu, 2024; Pulka & Gawuna, 2022). SMEs are typically funded from their own sources and bank loans in developing economies, and finance is not easily available from the markets (Bongini et al., 2021; Gumel & Bardai, 2021). Based on evidence drawn from 50 low and middle income countries, Sommer (2024) provides an explanation of how capital-market development can aid in SME financing, as it increases the credit supply by banks. Capital structure is also linked to the financial performance of SMEs in Tanzania (Kambi & Kasoga, 2024). These financing challenges also bring the question into mind if the capital markets can offer further opportunities for Tanzanian SMEs to raise funds and aid financial development.

Capital markets can provide firms with alternative access to equity finance to that of traditional banking. But, to reap the benefits of public markets, firms must meet the requirements of being listed and the obligations that come with it. The financial landscape in East Africa remains largely dominated by SMEs, who still depend heavily on banks, microfinance institutions and investment funds, and this is not being reflected in the use of capital markets and institutional investors (AfDB, 2023). Typical listing requirements include incorporation requirements, financial reporting requirements, disclosure requirements, corporate governance requirements, public shareholding and ongoing compliance requirements. These conditions ensure transparency and safeguard investors, but they can also impose financial and administrative requirements for smaller companies. Kaserer and Treßel (2024) concluded that the EU's

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growth prospectus simplified the documentation of the 'offer' while maintaining the level of protection for investors, albeit without providing strong evidence of an increase in IPOs.

The issue of access to capital and regulatory concerns applies to Tanzania where the Dar es Salaam Stock Exchange (DSE) has the Main Investment Market Segment (MIMS) and the Enterprise Growth Market (EGM). The EGM was created to give small and emerging companies another method of capital-raising under the provisions of a uniform law that adjusts to the company's stage of development. However, the applicants need to meet certain incorporation, shareholding, financial disclosure, appointments of a nominated adviser and governance requirements (DSE, 2024). The EGM is thus a possible means for SMEs to be financed, but does not relieve them of their organisational and regulatory responsibilities to participate in the public market.

Other African markets demonstrate the difficulty of scaling up the participation of SMEs in alternative market systems. Chisanga et al. (2022) identified potential for the Zambia's Lusaka Stock Exchange Alternative Market to facilitate SME capital financing but argued that this would require the increased listing of firms and mitigation of the issues associated with listing. This study focused on factors on the supply and demand side that affect the listing of SMEs on the Johannesburg Alternative Exchange, as outlined in Mosupye-Semenya (2024), in South Africa. Additionally, Mutale and Handema (2025) noted that some small firms lacked awareness and understanding of the procedures, while financial literacy was also inadequate, which limited their ability to participate in the LSX/AM. The results indicate that creating a specific market for smaller companies is not enough to guarantee that SMEs can tap public equity finance.

Whether an SME can meet stock-market listing requirements may depend partly on its internal characteristics. SMEs differ in size, financial position, management experience and organisational systems, which may influence their preparedness to meet disclosure and governance requirements. Evidence from Tanzania indicates that firm age, size, profitability, leverage and auditor type are associated with compliance with financial reporting standards for SMEs (Msechua et al., 2024). Although financial reporting compliance and stock-market listing are distinct outcomes, these findings suggest that firm-level characteristics may be relevant to an enterprise's preparedness to meet external requirements. SMEs with stronger financial records and more developed management systems may be better positioned to prepare the required documentation and establish appropriate governance arrangements, whereas firms with limited resources may face greater compliance costs. These differences may also relate to financing decisions and financial performance, although evidence on capital structure and SME performance does not directly establish whether firms are ready to list on a stock exchange (Kambi & Kasoga, 2024).

These relationships can be studied from two different points of view: Signalling Theory and Agency Theory. The signalling theory provides the explanation for how observable information and organisational practices can convey information to outsiders about the quality and prospects of organisations or firms (Spence, 1973). In this regard, the compliance with listing and disclosure requirements could help improve the investor's confidence because it minimizes investor uncertainty about a company. Agency Theory discusses the significance of control and supervisory mechanisms in solving the conflict of interest and information asymmetry issue between managers and outside investors (Jensen & Meckling, 1976). The processes that could be required to fulfil these requirements, however, may have costs associated with them for SMEs. This relationship between listing requirements and financial growth should then be explored in an empirical fashion, and the effects of regulation should not be assumed to be necessarily positive or negative.

Although previous studies have examined SME participation in stock markets, capital structure and SME financing, limited studies in Tanzania has jointly examined the relationship between stock-market listing requirements and SME characteristics and financial growth. For instance, Kambi and Kasoga (2024) investigated the relationship between capital structure and SME performance in Tanzania but did not examine how stock-market listing requirements and SME characteristics relate to financial growth. Studies conducted in Zambia and South Africa have investigated SME listing and barriers to participation in alternative stock markets (Chisanga et al., 2022; Mosupye-Semenya, 2024; Mutale & Handema, 2025). However, their findings arise from different regulatory and market environments and may not fully explain the circumstances facing SMEs in Tanzania. This study addresses this gap by examining the relationship between stock-market listing requirements, SME characteristics and financial growth in Tanzania. It seeks to provide empirical evidence that can inform discussions on SME preparedness for listing, the challenges associated with meeting listing requirements, and the role of capital markets in supporting enterprise development.

1.1 Research Objectives

i. To examine the influence of stock-market listing requirements on SME financial growth
ii. To assess the influence of SME characteristics on financial growth

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II. LITERATURE REVIEW

2.1 Theoretical Review

In determining the contribution of capital market listing requirements to SMEs' growth, there should be a pull from internal SME factors as much as from the external regulatory factors. The interrelationship between these two factors can further be conceptualized by employing signaling theory Spence (1973) as well as agency theory (Jensen & Meckling, 1976). Both theories have pertinent observations in terms of how SMEs can capitalize on the process of listing in terms of improved growth potential, access to funds, and overall organizational growth.

2.1.1 Signaling Theory and SME Growth Potential

This is the concept of Signalling Theory which was developed by Spence (1973) that observable information can convey information about qualities that are not known by the outside observer. Audited financial statements, disclosure and compliance with listing requirements may convey an SME's credibility and readiness to prospective investors in its capital market transactions. These signals can decrease information asymmetry and enhance access to finance (Peng & Walid, 2022). But costs of compliance can impact on financial and administrative resources that can affect business growth. From this theory, it is theorized that listing requirements can affect investor confidence and can also limit SMEs' financial growth.

2.1.2 Agency Theory

The theory of agency is proposed by Jensen and Meckling (1976) which helps understand how the information asymmetry coupled with conflicting interests between owners, managers and investors can create agency costs. The incorporation of financial reporting, auditing and corporate governance listing requirements can enhance transparency, accountability and investor monitoring. It is possible that these are effective only when SMEs have the necessary financial resources, management experience, and organizational systems. The theory thus sheds light on the governance advantages of going public as well as the disadvantages for SMEs associated with complying with listing standards.

2.2 Empirical Review and Hypothesis Development

2.2.1 Capital-Market Listing Requirements and SME Growth

The financial, governance, disclosure and regulatory requirements for firms to list on public equity markets are outlined in the stock-market listing requirements (OECD, 2025). While listing can increase access to investment capital and market visibility, compliance and auditing and reporting costs can also be a burden for SMEs and limit funds for expansion (Kaserer & Treßel, 2024; OECD, 2025). The relationship might be contingent on firms' ability to provide such services and resources.

Barriers to involvement in the alternative stock markets by SMEs are identified in African studies. Chisanga et al. (2022) studied the listing environment on the Lusaka Securities Exchange Alternative Market in Zambia, while Mutale and Handema (2025) found low awareness, financial literacy, and ownership issues as challenges to listing. Mosupye-Semenya (2024) analysed factors that are associated with successful listing of SMEs on the Johannesburg Stock Exchange (JSE) in South Africa. Samamba and Trivedi (2023) have shed light on disclosure and ownership issues that hinder domestic companies from being listed on markets in Africa. These studies focus on participation in the list and not on the link between listing participation and financial growth of SMEs.

Although the European Union study by Kaserer and Treßel (2024) revealed that the listing costs of IPOs were not reduced, or they were not argued to be reduced, as a result of the simplified prospectus requirements, that study found that documents were less complex. Other research explores financing decisions and SME performance: Kijkasiwat (2021) finds that owners' private finance intentions are negatively associated with their willingness to supply short-term financing; Nicolas (2022) suggests that short-term credit constraints have negative effects on forgone investment; and Kambi and Kasoga (2024) shows that debt is negatively related to SME performance in Tanzania. Specialist trading venues, liquidity and regulation overshadow were discussed by Fenwick and Vermeulen (2024). Khatun and Amanullah (2021) discuss the issues of documentation, accounting and disclosure in Bangladesh.

These studies provide account for possible constraints in listing and financing, but do not directly link the perceived constraints for listing with financial growth in Tanzanian SMEs. The study tackles that gap in the firms involved in the Dar es Salaam Stock Exchange (DSE) Enterprise Acceleration Programme (DEAP). From above we can hypothesise: *H1: Stock-market listing requirements have a negative relationship with the financial growth prospects of SMEs*.

2.2.2 SME Characteristics and Financial Growth

Whether or not SMEs can access external finance can be related to some extent to their internal characteristics. Firm size, financial position, managerial experience and the quality of the organisational system may affect access to resources and ability to satisfy external financing needs. For instance, evidence from Tanzania has shown that firm size,

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age, business information and collateral are linked to access to debt finance by the SMEs (Kira & He, 2012). The relationships between the firm characteristics and compliance with financial reporting standards for Tanzanian SMEs also reveal relevance of internal financial and organizational arrangements to external financial reporting requirements (Msechua et al., 2024).

There is also evidence from the international literature that access to external finance is correlated with SME growth. Chalençon and Marion (2025) study the financing of external growth of French SMEs and demonstrate the relationship between firm size and financing constraints and firm growth strategy. Boccaletti et al. (2025) conclude that market-based finance is correlated with subsequent SME growth, and public financial support may facilitate firms taking up access to market-based finance. The results indicate that having access to external capital can help the financial development of the business, but the possibility to be able to access such capital can differ depending on the case of the companies.

Using panel data for SMEs in Tanzania, Kambi and Kasoga (2024) determine that debt measures have a negative correlation with a number of financial performance indicators. Their results indicate that, in addition to access to finance, the structure of finance makes a difference in financial performance. A similar situation is found in Cameroon, where financial constraints have been identified as a challenge to the development of SMEs (Wansi & Burrell, 2023), but the institutional and economic environment is different from Tanzania.

Another argument for considering SME characteristics is the capital market context. The Dar es Salaam Stock Exchange's Enterprise Acceleration Program (DEAP) demands that the SMEs participate in the program submit three-year audited accounts, board member and executive management profiles and information on the expansion and growth ambitions of the SMEs. An option but required is also a strategic business plan (DSE, 2024). Evidently, financial record-keeping, management arrangements, and the capacity to communicate ideas of growth are relevant to SMEs' preparedness to approach potential investors. DEAP should not be seen as a requirement to meet all the formal criteria for listing on the stock exchange, however.

While some existing studies focus on firm characteristics, access to finance and financial performance, these studies do not comprehensively determine the relationship between firm characteristics and firms' financial growth prospects in relation to capital-market engagement in Tanzania. To answer this question, the present study looks at the link between SME characteristics and financial growth prospects. Therefore we hypothesise: *H2: SME characteristics have a positive relationship with the financial growth prospects of SMEs.*

III. METHODOLOGY

3.1 Research Design

This study used a quantitative cross sectional design to investigate the relationship between stock market listing requirements, the characteristics of the SMEs and their financial growth prospects. Data was gathered by a structured questionnaire at a single time. The design allowed the research to measure the relationships between the constructs but not determine the sequence of events or cause and effect.

3.2 Study Area

The study was conducted with SMEs involved in the Dar es Salaam Stock Exchange (DSE) Enterprise Acceleration Programme (DEAP) in Tanzania. The programme includes training and guidance for SMEs on financial management, strategic planning, corporate governance and other business development and finance topics to help support growth-oriented SMEs (DSE, n.d.). This setting is suitable as it focused on firms facing the prospect of augmenting their organisational systems and may be looking to raise external investment and/or capital markets. Respondents were the participants of the programme, and not necessarily already-listed firms on the stock exchange.

3.3 Target Population

The target population included SMEs involved in the respective DEAP cohorts. This study included 100 programme participants, 66 of whom were from the 2020 cohort and 34 from the 2022 cohort. These SMEs were a relevant population for the analysis of the perceptions of listing requirements, firm characteristics and financial growth prospects.

3.4 Sampling and Sample Size

A total-enumeration sampling method was adopted in the study where all 100 identified participants in the two DEAP cohorts were sent questionnaires. A total of 95 questionnaires were deemed usable after five were rejected due to incompleteness or other reasons. The usable response rate was 95% with the final sample being 95 SMEs. Only usable responses were used in the analysis.

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3.5 Measurement of Variables

A structured questionnaire with likert-type items was developed for the collection of data regarding three constructs: Stock-Market Listing Requirements (LR), SME Characteristics (SC) and Financial Growth (FG). The items were identified from literature review conducted on SME listing and customized to suit the context of the Tanzania capital market context.

Stock-Market Listing Requirements gauged respondents' perceptions of minimum capital requirements, corporate governance, transparency and disclosure requirements, the fairness of regulation, and the difficulties of meeting the listing requirements. SME Characteristics included firm size, industry characteristics, management experience, financial health, organisational structure and financial track record. Financial Growth was able to record the viewpoints of the respondents regarding the growth in revenue, profitability, returns on investment, access to funds, market recognition and financial performance. The measurement items were evaluated prior to testing the hypothesised relationships. Indicator reliability, internal consistency, convergent validity and discriminant validity were examined to establish the adequacy of the measurement model.

3.6 Data Collection

Primary data was gathered using questionnaires sent to the 2020 and 2022 DEAP cohort SMEs. The respondents shared their views on the perceived requirements for listing, nature of the firm and financial performance expectations. A total of 100 questionnaires were sent out and 95 were obtained and used in the analysis.

3.7 Data Analysis

Partial least squares structural equation modelling (PLS-SEM) was used to analyse the data. The choice of this technique was made to estimate relationships among latent constructs, as well as to evaluate the explanatory and predictive significance of these constructs. PLS-SEM is appropriate for analytical focus, such as prediction, and estimation of relationships between constructs (Hair & Alamer, 2022; Legate et al., 2023). However, the type of SEM technique should be consistent with the theoretical model and measurement specification used in the study (Uşaklı & Rasoolimanesh, 2023).

Analysis was carried out in two steps. First, the indicator loadings, Cronbach's alpha, composite reliability and average variance extracted (AVE) were used to assess the measurement model. To check the discriminant validity, the Fornell-Larcker criterion, indicator cross-loadings and the heterotrait–monotrait ratio (HTMT) were used. Skewness and kurtosis were also investigated, which can be used to describe the distributional features of the data (Demir, 2022).

Second, the path coefficient (β), bootstrapped significance test, coefficient of determination (R^2), effect size (f^2) and predictive relevance (Q^2) were used to evaluate the structural model. The statistical significance and direction of the hypothesised relationships were evaluated by these statistics, as well as the contribution of each predictor and the explanatory power of the model. One tailed significance tests were employed as the hypotheses were directional. The hypotheses were therefore considered as associations rather than cause and effect, as it was a cross-sectional design.

IV. FINDINGS & DISCUSSIONS

4.1 Respondent and Firm Characteristics

Table 1 also shows that the sample was made up predominantly of senior and relatively seasoned executives from established SMEs, thus allowing a better view of the issues present in the organisation and the capital market. Education level distribution suggests a moderate level of formal education and firm characteristics suggest variations in the size and monetary ability of the firms. Furthermore, the respondents' awareness of the DSE EGM also suggests that most respondents were aware of the relevant avenue for SME financing in the capital-market. The profile gives a satisfactory background for interpreting the perceptions of listing requirements and financial growth of SMEs.

Table 1

Demographic Characteristics of Respondents (N = 95)

Characteristic	Category	Frequency	Percentage (%)
Gender	Male	64	67%
	Female	31	33%
Age	18–25 years	6	6%
	26–35 years	10	11%
	36–45 years	29	30%
	46–55 years	34	36%
	56+ years	16	17%
Education	Diploma	29	31%

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	Bachelor	45	47%
	Master	12	13%
	PhD	0	0%
	Others	9	9%
Position in the Company	Chairman/CEO	80	84%
	Manager/Head of Unit/Department	11	12%
	Senior Officer	4	4%
	Officer	0	0%
	Others	0	0%
Age of SME	Below 3 years	0	0%
	3–6 years	6	6%
	7–9 years	29	31%
	10 years and above	60	63%
SME Net Worth	Below TZS 200 million	28	29%
	TZS 200–400 million	39	41%
	TZS 400–600 million	12	13%
	TZS 600–800 million	9	10%
	Above TZS 800 million	7	7%
Number of Employees	2–10	13	14%
	11–20	38	40%
	21–50	16	17%
	51–100	20	21%
	101+	8	8%
Awareness of DSE EGM	Much aware	85	89%
	Average aware	10	11%
	Not aware	0	0%

4.2 Descriptive Statistics

The descriptive statistics of the items that measure the influence of the requirements of the stock market listing on the financial growth of SMEs (LR, SC, FG) yield different results. The findings show that generally respondents perceived stock market listing requirements and SME characteristics as important for SMEs to access and benefit the capital market. The factor loadings of the items are relatively high, indicating a good representation of the constructs. The VIF values are quite acceptable and there is no multicollinearity is a significant problem. The results in general justify the measurement and assessment of the structural model.

Table 2

Descriptive Statistics

Item	Statement	Mean	SD	Factor loading	VIF
LR1	The minimum capital requirements for listing on the stock market are achievable for most SMEs.	0.882	3.344	0.747	1.716
LR2	Corporate governance standards for SMEs are clearly defined and feasible to implement for public listing.	0.944	2.279	0.739	1.606
LR3	The transparency and disclosure obligations for SMEs are critical for gaining investor confidence when listed on the stock market.	0.907	1.233	0.864	2.326
LR4	The regulatory framework for listing SMEs is fair and encourages growth opportunities.	0.995	1.2	0.885	2.692
LR5	SMEs face significant challenges in meeting stock market listing requirements due to their limited resources.	0.883	1.988	0.691	1.637
LR6	Meeting stock market listing requirements improves the long-term viability and competitiveness of SMEs.	0.893	0.238	0.669	
SC1	The size of the SME influences its ability to meet the requirements for listing on the stock market.	0.946	0.756	0.848	2.234
SC2	The industry sector of an SME plays a crucial role in determining its success in meeting stock market listing requirements.	0.795	2.246	0.853	2.346

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SC3	Management experience is a key factor that helps SMEs meet the listing requirements effectively.	1.006	0.096	0.669	1.386
SC4	The financial health of an SME is vital for its successful listing on the stock market.	0.961	0.641	0.629	1.134
SC5	SMEs with better organizational structures are more likely to meet stock market listing requirements.	0.763	3.771	0.694	1.286
SC6	SMEs with a strong financial track record are better equipped to fulfill listing requirements and access public markets.	0.828	-0.414	0.679	1.366
FG1	Listing on the stock market has led to significant revenue growth for SMEs.	0.929	2.473	0.721	2.776
FG2	Public listing has improved the profitability of SMEs.	0.89	1.677	0.77	3.902
FG3	The stock price performance of listed SMEs has positively impacted their overall financial growth.	0.864	1.753	0.805	3.635
FG4	The return on investment (ROI) for SMEs after being listed on the stock market has increased significantly.	0.939	1.056	0.886	4.189
FG5	The financial growth of SMEs post-listing is influenced by the industry in which the SME operates.	0.875	1.636	0.836	5.854
FG6	SMEs that are listed on the stock market experience increased access to capital, which drives their financial growth.	0.882	1.453	0.864	6.204
FG7	Post-listing, SMEs experience greater market recognition, which contributes to their financial growth.	0.789	2.53	0.811	2.765
FG8	Financial growth in SMEs listed on the stock market is often slower initially but increases over time.	0.833	3.26	0.849	4.465
FG9	The financial performance of SMEs after listing is more stable due to increased market exposure.	0.882	1.21	0.869	4.619

4.3 Measurement Model

The measurement model was assessed for the reliability and validity of the construct indicators. As done by Hair and Alamer (2022) and Legate et al. (2023), the assessment was carried out based on four criteria, namely the criterion of indicator reliability, internal consistency reliability, convergent validity, and discriminant validity. The reliability of an indicator was measured by outer loadings with a value of 0.708 or higher preferred. A loading range of 0.40 to 0.708 was considered for removal if the deletion would increase internal consistency reliability and/or convergent validity, but would not decrease content validity. Internal consistency reliability was determined by using the Cronbach's alpha and composite reliability, both results exceeded 0.70, which is often used as the cut-off value for the reliability. Average variance extracted (AVE) was used to evaluate convergent validity, which was required to be at least 0.50. The discriminant validity was evaluated by cross-loading, Fornell-Larcker criterion and the heterotrait-monotrait ratio of correlations (HTMT). The criterion below 0.85 is considered as the preferred criterion (Henseler et al., 2015; Hair & Alamer, 2022).

4.3.1 Individual Item Reliability

Indicator reliability is the measure of how much of the variance in the indicators is accounted for by the construct. PLS-SEM recommends an outer loading of 0.708 or higher, as it means that the construct accounts for at least 50% of the indicator's variance. However, indicators with loadings between 0.40 and 0.708 should not be removed automatically. They need to be evaluated in terms of internal consistency reliability and convergent validity/content validity (Hair et al., 2021; Hair & Alamer, 2022). In the current study, the outer loading of the listing requirement item (LR1) was very low according to the result of the algorithm used PLS. The results of the removal process of LR1 are presented in Table 3 that shows an increase in the composite reliability (CR) and average variance extracted (AVE). This item was then deleted from this measurement model as the measurement results were not supportive of retaining the item.

4.3.2 Internal Consistency Reliability

Internal consistency reliability measures how well indicators measuring the same construct are consistent in their measurements. Cronbach's alpha and composite reliability are commonly used to assess this criterion in PLS-SEM. Cronbach's alpha makes the assumption of equal indicators' reliability while composite reliability incorporates the estimated indicators' loadings. The two measures can thus give complementary evidence for the internal consistency reliability (Hair & Alamer, 2022; Hair et al., 2020). The results obtained from the PLS algorithm revealed that Cronbach alpha values in the items ranged between 0.743 and 0.941 and the composite reliability values ranged between 0.752 and 0.943 (Table 3). The internal consistency reliabilities of all constructs were higher than the recommended level of 0.70. But the highest (closer to or equal to 0.95) should be looked for signs of redundancy of the indicators.

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4.3.3 Convergent Validity

The convergent validity is how much variance there is that is shared by the indicators that have been created for the same construct. AVE is often used to evaluate convergent validity in PLS-SEM. AVE ≥ 0.50 means that the construct has an average accounting variance in its indicators of at least 50% (Hair et al., 2021; Hair & Alamer, 2022). The AVE scores in the present study ranged from 0.573 to 0.681 (Table 3). The measurement model was found to meet the criterion for convergent validity as all constructs had an alpha value above the minimum value of 0.50.

4.3.4 Discriminant Validity

Discriminant validity is the degree to which a construct is distinguishable in the model from other constructs. Cross-loadings, Fornell–Larker criterion and HTMT were used to evaluate. Each indicator is required to have a higher loading on the construct to which it is assigned under cross-loadings criterion than on other constructs. According to the Fornell–Larcker criterion, the square root of each construct's AVE must be greater than the absolute correlations of the construct with other constructs. The values below 0.85 were deemed as preferred for this study according to HTMT, which is an additional measure of discriminant validity (Henseler et al., 2015). Table 4 shows the outcomes of these evaluations. When the results met the specified criteria, discriminant validity was assumed. If exceptions are found, they should be reported and assessed, but not assumed to have met all of the criteria.

Table 3

Reliability and Validity

Construct	Cronbach's alpha	Composite reliability	AVE
FG	0.941	0.943	0.681
LR	0.849	0.887	0.622
SC	0.743	0.752	0.573

4.3.4 Discriminant Validity

Discriminant validity is the ability of indicators to discriminate between constructs. That is, it is a measure of the ability of a construct under study to be differentiated from other constructs (Hair et al., 2021). The three criteria for assessing discriminant validity (Hair et al., 2017) are: Fornell and Larcker (1981) criterion, cross loading and the HTMT. The first method, Fornell and Larcker's assessment, is based on a comparison of the square roots of the AVE with the correlations between the latent variables (Fornell & Larcker, 1981). The square root of a construct AVE exceeds the correlations with other constructs, which is considered the discriminant validity. The square roots of the AVEs in this study were between 0.756 and 0.825. Our model showed that the discriminant validity was met (Table 4).

Table 4

Discriminant validity (Fornell-Larcker criterion)

Construct	FG	LR	SC
FG	0.825		
LR	0.591	0.789	
SC	0.68	0.695	0.757

Note: Bolded values in the diagonals cell embodies the square root of AVE

Cross loading evaluation (Chin, 1998; Mellor, 2022) is another method of assessing discriminant validity. A variable's loading should be higher than other variables cross loadings as per the Hair et al. (2020) and Rönkkö and Cho (2022). All measurement item loadings in the present study are above any cross loadings as per Table 5 of the present study, thus indicating the model is discriminant valid, as the loadings of the measurement items are different and higher than the cross loadings.

Table 5

Discriminant validity (cross loading criterion)

Indicator	FG	LR	SC
FG1	0.721	0.607	0.497
FG2	0.770	0.489	0.479
FG3	0.805	0.450	0.498
FG4	0.886	0.513	0.670
FG5	0.836	0.505	0.563
FG6	0.864	0.422	0.547
FG7	0.811	0.521	0.559

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FG8	0.849	0.450	0.593
FG9	0.869	0.425	0.611
LR2	0.393	0.747	0.376
LR3	0.423	0.739	0.566
LR4	0.584	0.864	0.573
LR5	0.558	0.885	0.673
LR6	0.271	0.691	0.547
SC1	0.545	0.662	0.848
SC2	0.529	0.644	0.853
SC4	0.403	0.345	0.669
SC5	0.547	0.403	0.629

The heterotrait–monotrait ratio of correlations (HTMT) was used as the third criterion for assessing discriminant validity. HTMT is a comparison of indicator correlations measuring different constructs (heterotrait correlations) with indicator correlations measuring the same construct (monotrait correlations) (Henseler et al., 2015). The threshold value of 0.85 was chosen after the more conservative criterion that is widely used in the PLS-SEM literature (Henseler et al., 2015; Roemer et al., 2021). All the HTMT values were less than 0.85 as indicated in Table 6. The results of this study showed evidence of the discriminant validity of the constructs that were studied at the specified threshold.

Table 6

Discriminant validity (HTMT criterion)

Construct	FG	LR	SC
FG			
LR	0.632		
SC	0.802	0.839	

The results of the measurement model show that the constructs meet the specified reliability and validity requirements. This serves as a foundation for moving towards structural model assessment, which looks at relationships between constructs and tests the hypotheses being proposed (Hair & Alamer, 2022).

4.4 Structural Model

Multiple exogenous and endogenous constructs were examined in the structural model to assess the relationships between them (Hair & Alamer, 2022). The exogenous constructs in this study were stock market listing requirements and the characteristics of SMEs, while the endogenous construct was the financial growth of SMEs. The coefficient of determination (R^2), effect size (f2), predictive relevance (Q^2) and path coefficients (β), as well as the statistical significance of the hypothesized relationships were taken into account. An evaluation of collinearity among the predictor constructs should also be conducted as part of the evaluation of the structural model (Hair & Alamer, 2022). The structural-model results are shown in Table 7, which shows the explanatory power of the model, the contribution of each predictor, predictive relevance and predicted path relationships. The two hypotheses were accepted as was, if the path coefficients for the hypotheses were positive and significant at the level of their significance.

Table 7

Hypothesis testing

Hypotheses	β	SD	T values	P values	Supported?	R^2	Q^2	f^2
H1:LR -> FG	-0.229	0.124	1.849	0.032	Yes	0.490	0.282	0.153
H2:SC -> FG	0.521	0.107	4.878	0.000	Yes			0.275

Note: Significant at ***p< 0.01 (one tailed test); LR: Stock Market Listing Requirements, SC: SME Characteristics, FG: Financial Growth of SMEs

4.5 Discussion

4.5.1 Listing Requirements and SME Financial Growth

The negative relationship between listing in the stock market and financial growth of SMEs is corroborated by literature which shows that regulatory and organizational impediments are found in SMEs' participation in the capital market. The listing costs and skills needs, and concerns about loss of control are identified by Mosupye-Semenya (2024) as factors relevant to SMEs' listing decision in South Africa. By the same logic, Samamba (2023) explain that disclosure requirements and public ownership issues may deter businesses from going public in Africa. In Bangladesh, the documentation, standard accounting records, and tax compliance and disclosure requirements are considered factors that

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influence SMEs' readiness to access capital via securities markets (Khatun & Amanullah 2021). Together, these studies indicate that the demand of capital-market expectations for smaller businesses can be of a financial and administrative nature. They do not, however, directly prove that these requests hamper the financial development of the SMEs.

Other evidence on regulatory simplification gives another take. According to Kaserer and Treßel (2024), the EU growth prospectus is not only a more streamlined way to become an SME IPO applicant but it is also a way to provide protection for investors. Their analysis, however, fails to prove that the simplified prospectus will bring down the fixed listing costs or spur IPO activity. The finding highlights a difference between the two approaches: making the process easier to go through and making the capital market process less expensive. While the requirements of listing can have benefits for investors and the credibility of the market, they could be more or less practical depending on the resources needed to follow the requirements.

The findings from African alternative markets also highlight ongoing problems in accessing markets for SMEs. Chisanga et al. (2022) conclude that the role of the Lusaka Stock Exchange Alternative Market in financing SMEs has not been fully realised and suggest a need to amend listing regulations and promote awareness of listing opportunity. Similarly, Mutale and Handema (2025) pinpoint lack of awareness and financial illiteracy as challenges to the SME involvement in the same market. The findings are applicable in Tanzania because they show that creating an alternative market does not reduce the challenges that enterprises encounter in accessing finances from capital markets. However, caution should be taken in using the findings from Zambia to Tanzania because of the differences in the market structure and the institutional conditions.

The present study's negative relationship could also be explained by Signalling Theory. Disclosure, governance and compliance mechanisms could signal quality of the firm and mitigate information asymmetry between SMEs and potential investors. However, creating and maintaining these signals requires financial, administrative and managerial resources. If these demands are excessive for an SME's resources, it could reduce the financial resources available for productive investment and other growth activities.

Another explanation is provided by Agency Theory. Governance and disclosure requirements can help mitigate agency problems and enhance investor protection, but monitoring, reporting and compliance will also come at a cost. This is thus a possible conflict between investor protection and the costs SMEs have to invest in order to comply with listing requirements. It puts forward the concept of proportionate requirements, which will help to keep the integrity of the market while not needlessly burdening smaller businesses.

4.5.2 SME Characteristics and Financial Growth

The positive association between SME characteristics and financial growth is consistent with the evidence that shows financial and organizational characteristics of the firms are related to their growth opportunities. Chalençon and Marion (2025) conclude that firm size and financial constraints due to size matters for the financing of external growth of French SMEs. Similarly, Boccaletti et al. (2025) discover that having access to market-based finance is correlated with subsequent growth among European SMEs. While the studies cited in this section do not all directly test this full range of SME characteristics tested in the present study, they do indicate that the environment of the firms and access to suitable finance are relevant to the issue of growth.

Tanzania evidence complements this view. According to Kambi and Kasoga (2024), debt measures are negatively correlated with various financial performance measures for Tanzanian SMEs. Their results indicate that financial results are not just a function of having external financing, but also of the financing arrangement and the financing management of the company. According to Wansi and Burrell (2023), financing constraint is a problem for the development of SMEs in Cameroon. This is consistent with the notion that the internal characteristics, financing scheme and financial results are related and should be discussed, but the results of the studies do not imply that all internal characteristics are positively related to growth.

The results are also consistent with the rationale behind the Dar es Salaam Stock Exchange's Enterprise Acceleration Program (DEAP). The programme aims to build capacity of SMEs in financial management, strategic planning, corporate governance, talent management and business development, as a means to attracting investors and financiers (Dar es Salaam Stock Exchange [DSE], n.d.). This approach is based on the understanding that readiness for capital markets is more than fulfilling the formal criteria. There is also a need for proper management systems and the capacity of SMEs to organise their business in a way that promotes sustainable growth.

Theoretically, Signalling Theory explains the positive relationship. Well-kept financial statements, good management and appropriate organizational procedures can tell prospective investors a lot about the quality and future of a business. These qualities should be viewed as potential indicators, however, and should not be used to predict performance. A complementary explanation is provided in Agency Theory: sound governance, accountability and monitoring systems may increase managers' accountability to owners and boost external financiers' confidence. Although various theoretical arguments offer plausible explanations for the observed relationship, the present findings do not confirm the mechanisms by which the SME characteristics can be linked to financial growth.

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The results also point to the need for external financing environment and internal arrangements improvements in order to foster the growth of SMEs. While regulatory burdens may be eased, this can't resolve the problem if companies do not have proper financial accounting, management, or corporate structures. This complementary approach is evident in the DSE's business-capacity development programme (DEAP), which includes access to various types of financing. In this regard, policy measures to enhance financial development of SMEs should take into account the regulatory environment in which the enterprises function as well as the capacity of the enterprises to manage finances and growth.

V. CONCLUSION & RECOMMENDATIONS

5.1 Conclusion

This study examined the relationships between stock-market listing requirements, SME characteristics and financial growth among enterprises participating in Tanzania's Dar es Salaam Stock Exchange (DSE) Enterprise Acceleration Programme (DEAP). The findings revealed a statistically significant negative relationship between listing requirements and financial growth, while SME characteristics had a positive and stronger relationship with financial growth. The negative relationship suggests that the financial, administrative and organisational demands associated with capital-market participation may constrain SMEs' growth prospects. However, this finding does not justify removing listing requirements, as disclosure, financial reporting and governance safeguards remain essential for investor protection and market accountability. The positive relationship between SME characteristics and financial growth indicates the relevance of firms' internal conditions, including financial strength, management competence and organisational preparedness, to their growth prospects. The findings have practical implications for capital-market development and SME support. They suggest that improving SME participation requires attention to both the proportionality of external requirements and firms' internal preparedness. Although the findings inform understanding of SMEs participating in DEAP, their applicability to enterprises outside the programme requires further investigation.

5.2 Recommendations

The DSE and relevant regulatory authorities should periodically assess whether listing and compliance requirements are proportionate to the circumstances of SMEs. Where unnecessary administrative burdens are identified, proportionate reporting arrangements and standardised disclosure templates could reduce compliance difficulties without compromising investor protection. The DSE should strengthen DEAP support through practical training and advisory services covering financial reporting, corporate governance, financial planning, prospectus preparation, investor relations and regulatory compliance. Such support should help participating enterprises identify organisational gaps before pursuing capital-market finance. SME managers should prioritise accurate financial records, appropriate internal controls, sound governance arrangements, management development and realistic growth plans. These measures align with the observed positive relationship between SME characteristics and financial growth. Nevertheless, the findings do not establish that any individual practice independently guarantees improved financial performance.

The findings also suggest that policymakers should coordinate regulatory support with enterprise development initiatives rather than address listing requirements and firm preparedness separately. This approach could help align capital-market participation arrangements with the needs of smaller enterprises. Future research should use longitudinal designs and objective indicators, including revenue growth, profitability, employment and capital raised, to examine how these relationships develop over time. Studies involving SMEs outside DEAP and comparisons with alternative securities markets in other African countries would help establish the wider applicability of the findings and identify differences in listing arrangements associated with SME financial growth.

Declaration of Interest

The authors declare that they do not have any known competing financial interests or personal relationships that could have appeared to influence the work reported in this paper.

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