

On Delisting of Corporations: a Three-Dimensional Classification Framework for Voluntary Delistings

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The study of the effects of delisting on the dynamics of value and governance of delisted companies represents a very promising research opportunity for international scholars. This paper addresses a preliminary question, i.e. how, in the face of a complex phenomenon with a significant number of highly differentiating characteristics, it is possible to avoid the risk that a conjunct observation of operations that differ too much one from the other might raise significant obstacles to the application of the main models of qualitative and/or quantitative analysis. We define a classification framework that deepens the fundamental distinction between voluntary and involuntary delistings. A particular focus is on voluntary delistings, which we differentiate in the light of three main characterising features: i) the subjects who pursue delisting, ii) the underlying strategic context and iii) the operating conditions of the delisted company. Our three-dimensional classification framework defines eight homogeneous areas of observation (pre-sale delistings, hidden potential delistings, control strengthening delistings and takeover delistings, either in balanced operating conditions or in presence of crisis/operating distress) and may be a useful starting point for future studies on the effects of delisting on the dynamics of value and governance of the delisted company.

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1. Introduction

Corporate delisting can be technically defined as the removal of a listed stock from a regulated exchange. If analysed from a deeper perspective, however, corporate delisting shows up as a very complex and highly differentiated phenomenon. Each cancellation, if further inspected, seems to present an almost unique set of characteristics and dynamics, with particular regard to the parties involved, the underlying strategies and motivations, the technical formalities, and the effects on the performance of the delisted firm and on its organisation.

Existing research appears to be very fragmented, as scholars tend to concentrate separately on specific types of delisting (going-private transactions, going-dark strategies, involuntary delistings or termination of a cross-listing), without sharing a wider and common theoretical framework.

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The vast majority of scholars address going-private transactions concluded through leveraged and management buy-outs. In this perspective, delisting is considered as the technical side-effect of wider buy-out strategies. Research questions within this strand of research typically address the recurring characteristics of delisted companies, the motives that may lead to a delisting and the effects of delisting (or its announcement) on the value of the shares, usually by means of event studies. Conversely, there are very few studies that go into detail on the effects of corporate delistings on the dynamics of value and governance of the delisted company. In fact, international literature does not provide complete answers on how a corporation may change in consequence of the cancellation of the quotation, or on how delisting may affect a firm's governance mechanisms and organisational structure, or its stakeholder relationships, performance, reporting system, etc.

One possible reason for this ostensible lack of attention towards a relevant and almost unexplored field of study may be sought in the difficulties that scholars encounter in finding information on the effects of delisting. After delisting, firms often disappear as separate legal entities, by means of substantial restructurings. Furthermore, even in the most important financial markets, withdrawals are often not included among the phenomena that are the subject of official statistical monitoring, and the information gathered is rarely disclosed to the public, as opposed to what normally occurs with new listings. The most common databases do not offer complete coverage on delisted companies, which after delisting are either classified as "dead", with the consequent interruption of any statistical monitoring, or even removed from the consultable database. Also, even when it is possible to obtain information on the post-delisting period, it is voluntarily provided by delisted firms themselves, and therefore it ends to be ineluctably biased.

Notwithstanding these substantial difficulties, the study of the effects of corporate delisting represents a very promising research opportunity for international scholars.

This paper addresses a preliminary and fundamental question, i.e. how to avoid the possibility that, in the face of an extremely complex phenomenon with a significant number of highly differentiating characteristics, the conjunct observation of operations that differ too much one from the other might raise significant obstacles to the application of the main models of qualitative and/or quantitative analysis.

We make a proposal for a multi-dimensional framework, based on a classificatory approach, with the objective of delineating homogeneous observation contexts within which to carry out more in-depth studies. In particular, we first take into consideration the fundamental formal distinction—widely encoded in existing international studies—between voluntary and involuntary delisting, enriching the classification with two more in-depth sub-levels. We then focus on voluntary delisting and we identify three fundamental profiles of further classification, concerning:

- i) the subject issuing the will to proceed with delisting (classification by *subject*);
- ii) the strategic context into which the delisting falls (classification by *purpose*);
- iii) the operating conditions of the delisted company (classification by *operating conditions*).

Through the combination of the above mentioned profiles in a three-dimensional matrix, we define eight uniform areas of observation. We synthetically identified each area with the following names:

1. Pre-sale delistings (in balanced operating conditions);

2. Hidden potential delistings (in balanced operating conditions);
3. Control strengthening delistings (in balanced operating conditions);
4. Takeover delistings (in balanced operating conditions);
5. Pre-sale delistings (in presence of crisis/operating distress);
6. Hidden potential delistings (in presence of crisis/operating distress);
7. Control strengthening delistings (in presence of crisis/operating distress);
8. Takeover delistings (in presence of crisis/operating distress).

Each area corresponds to a different type of voluntary delisting and any research on the dynamics of value and governance of the delisted company should carefully take into consideration these differences.

The paper proceeds as follows: Section 2 provides a review of the international literature on the effects of corporate delisting; Section 3 illustrates the formal distinction between voluntary and involuntary delisting; Section 4 contains our proposal of a possible three-dimensional framework for voluntary delistings, followed by some conclusive remarks in Section 5.

2. Literature Review

The delisting of corporations does not represent a single area of study in the international literature, as scholars tend to separately concentrate their attention on particular types of delisting.

For the most part, existing research tends to identify delisting as the result of a going-private transaction, i.e. a transaction or a series of transactions that convert a publicly traded company into a private entity. A going-private transaction may be concluded through the use of various technical methods (for example, a full public take-over bid) and leads to a significant reduction (or even to the zeroing out) of the shares in circulation. As a consequence of the lack of outstanding shares, the company is delisted from the stock exchange.

Other studies address delisting as the result of a going-dark strategy (Marosi & Massoud 2007; Coles 2008; Leuz et al. 2008; Fried 2009), i.e. deregistrations, typical of the U.S. market, where companies cease SEC reporting, but continue to trade publicly on less regulated markets (for example, the pink sheets system). In particular, Leuz et al. (2008) demonstrate that going dark and going private are distinct economic events.

Delisting may also concern the termination of a secondary listing (also known as cross-listing), i.e. the listing of a company's common shares on a different exchange than its primary and original stock exchange (Meera et al. 2000; Sun et al. 2002; Pfister & von Wyss 2010; You et al. 2012; Hostak et al. 2013).

Finally, a different strand of research involves involuntary delistings, that is, forced withdrawal, generally decided by the stock exchange, due to the absence of the requirements necessary to maintain a quotation (Sanger & Peterson 1990; Chandy et al. 2004; Charitou et al. 2007; Macey et al. 2008).

Focusing the attention on going-private transactions, empirical research is mainly concentrated on two time-frames, namely 1980 to 1987 and 1998 to 2004. As for the

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first period, the increased attention paid by scholars may be related to the considerable number of delistings that followed the numerous acquisitions that took place in the U.S. market in the period from 1980 to 1987. As for the 1998 to 2004 period, the increased number of studies on corporate delistings can be associated with the wide international debate that followed the introduction of the 2002 Sarbanes Oxley Act in the U.S. In fact, a large proportion of the empirical studies that focus their attention on the latter period analyse the relationship between the number of corporate delistings and the burden of new governance rules and controls introduced by U.S. federal law. See, for example, Hostak et al. (2013).

In regards to the geographical and cultural research frames, the vast majority of studies use U.S. market data (DeAngelo et al. 1984; Lehn & Poulsen 1989; Slovin et al. 1991; Denis 1992; Kieschnick Jr 1998; Halpern et al. 1999; Engel et al. 2007; Gleason et al. 2007; Leuz 2007; Mohan & Chen 2007; Bartlett 2009; Hansen et al. 2009; Harris 2009; Kamar et al. 2009; Doidge et al. 2010; Iliev 2010) and U.K. market data (Weir et al. 2005a, 2005b; Weir & Wright 2006; Renneboog et al. 2007; Weir et al. 2008; Achleitner et al. 2010; Aslan & Kumar 2010; Kashefi Pour & Lasfer 2013). The situation reflects both the general tendency of international literature to focus on these countries, but also the larger dimensions of their financial markets and the greater availability of quantitative data. More recently, empirical studies have been carried also on going-private transactions in other European countries (Michelsen & Klein 2011; Croci & Del Giudice 2012; Geranio & Zanotti 2012; Belkhir et al. 2013), Asia (Lee et al. 2010) and Oceania (Chi et al. 2010).

Regarding going-private transactions, four main research domains may be identified (Onesti et al. 2012).

The first strand of research—to which the majority of existing studies are related—regards the recurring characteristics of delisted companies and the motives that may lead to a delisting (we may call this first thematic area “ex ante perspective”). These studies make a considerable use of quantitative models (especially logistic regressions), that are well suited to identifying the variables that most differentiate going private companies from those maintaining quotation. See, for example, the recent papers by Michelsen and Klein (2011), Belkhir et al. (2013) and Kashefi Pour and Lasfer (2013).

The second research domain concerns the effects of delisting on the interests of the shareholders of the company that goes private and on the financial performance after the delisting (“restricted ex post perspective”). Most of these studies tend to focus on the effects of going private transaction (or their announcement) on stock prices (usually by means of event studies); see, for example, Geranio and Zanotti (2012). Profiting from the availability of more complete databases, some recent studies analyse how financial performance may change in the post-delisting period; see, for example, Aslan and Kumar (2010) and Croci and Del Giudice (2012).

The third strand of research deals with the consequences of delisting on the dynamics of governance of the delisted firm and on the wider perspective of the interests of its stakeholders (“broad ex post perspective”). For this purpose, the methodology adopted is mainly speculative and theoretical (Schneider & Valenti 2010; Schneider & Valenti 2011), while, in the case of empirical contributions, qualitative methods are used (Achleitner et al. 2010).

The last research domain regards the relationship between the laws and regulations of financial markets and corporate governance systems, on one side, and the decision to go private, on the other side (“institutional perspective”). See, for example Leuz (2007), Doidge et al. (2010) and Iliev (2010).

The classification framework that will be illustrated in the next sections specifically addresses the second and the third research strands, which provide the most promising opportunities for future research, notwithstanding the already mentioned difficulties regarding the quantity, completeness, reliability and verifiability of the information about the post-delisting period.

3. The Classification of Corporate Delistings

Our classificatory approach is aimed at defining homogeneous observation contexts within which more in-depth studies on the effects of delisting can be reliably carried out.

The decision to place the various cases of delisting within homogeneous categories stems from the perception—which is widely supported by the literature—that in all branches of human science the process of classifying any object of study makes it easier to reason and reflect, and permits a more profound understanding of the phenomena observed in order to deduce certain general rules from them (Gilchrist 2003; Calero et al. 2008; Malafsky & Newman 2009).

In the majority of cases, the development of an effective taxonomy requires careful observation of the objective reality of the study so as to identify the characteristics and peculiarities that distinguish one type of operation from another. The usefulness of this employment of taxonomy (Pellini & Jones 2011) is in direct proportion to the complexity of the phenomena being studied; the greater the number of cases to be analysed and the more characteristics each of them has, the more apparent will be the need to identify one or more criteria to be used to express the essential features of the observed phenomena in brief terms. In contrast, the degree of effectiveness of a taxonomy depends to a great extent on the possibility of identifying homogeneous categories of phenomena, the distinctive features of which can be outlined with sufficient clarity so as to reduce, where possible, the risk of misclassification.

In defining the taxonomy that best suits the knowledge needs it is intended to satisfy, it is also necessary to identify one or more formal tools that will make it possible to effectively summarize the structure of the classification developed. To this end, it is possible to choose from among various tools such as lists, tree structures, hierarchies, polyhierarchies, multi-dimensional matrix structures and system maps (Lambe 2007; Pellini & Jones 2011).

The systematic definition of the research objectives, the subsequent analysis of the observed events and the correct identification of the formal tool that is most appropriate for the pre-determined needs of the study, should allow the researcher to remove (or at least reduce) the most common errors that may affect the validity of a taxonomy. These can be summarised as follows (Gomez-Pérez 1999):

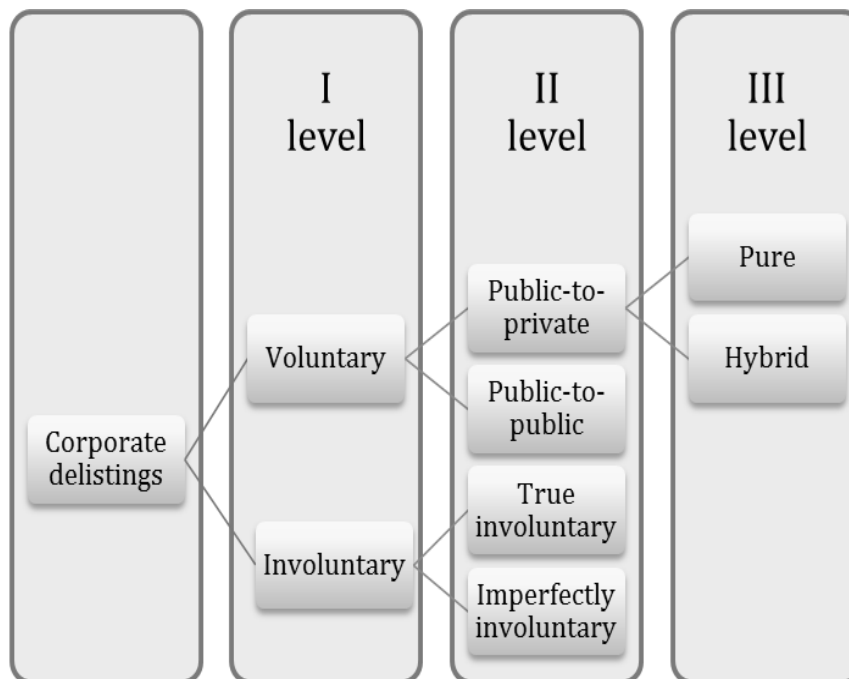
- *inconsistency*, that is, the presence of contradictions, conceptual ambiguities or an incorrect definition of the identified categories (circularity errors, partition errors, semantic inconsistency errors);

- *incompleteness*, which emerges in the presence of the omission of one or more distinctive characteristics that are particularly relevant for classification purposes (incomplete concept classification, partition errors);
- *redundancy*, where the incorrect definition of the distinctive characteristics results in a substantial duplication of the identified categories (grammatical redundancy errors, identical formal definition of some classes, identical formal definition of some instances).

To define a classification model, we adopted a mixed inductive-deductive approach based both on an analysis of the main scientific papers of reference and on observation of the available empirical evidence, with particular regard to the UK and Italian financial market (Onesti et al. 2012). Given the limited number of examples of the phenomenon and the lack of adequate statistical databases, it was not considered to be practicable to adopt classification methods based on statistical analysis.

This section offers an initial classification of corporate delistings, developed on three levels, which permits isolation of the category of voluntary delisting, which will be the subject of further study in section 4 below.

Figure 1 The Classification of Corporate Delistings



The features considered for the classification are explained in the following subparagraphs.

3.1 The First Level of Classification of Corporate Delistings: Voluntary and Involuntary Delistings

The feature of greatest differentiation among delisting operations comes from their voluntary or involuntary nature.

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Only in voluntary delistings it is possible to identify true "delisting strategies" endorsed by the parties who govern the firms concerned. In particular, delistings may be considered to be "voluntary", where the observed company, or the parties that control and govern it, put in place choose to create the conditions for achieving delisting through a variety of technical methods.

Involuntary delistings, on the other hand, are those attributable to forced withdrawals ordered by supervisory authorities or stock exchange operators due to a lack of the necessary conditions for the listing. The company is normally a passive participant in the cancellation, because it is in a condition in which it is unable to take suitable action to avoid a withdrawal order issued by the competent authority.

The aspect that in the first instance best allows one to distinguish between voluntary and involuntary listings lies in the technical motivations that lead to the delisting. Leaving aside the institutional dissimilarities between different countries, voluntary delistings generally follows the conclusion of public takeover bids, the merger of a listed company into another legal entity or a request for voluntary exclusion presented by the listed company in compliance with the relevant legislation. Conversely, involuntary delistings take place in presence of weak trading and/or free float, insolvency proceedings, accounting irregularities, frauds or other similar circumstances (Harris & Panchapaegesan 2008; Macey et al. 2008).

In order to understand the motives for the decision of going private, much research has been made about the differences between voluntarily delisted companies and companies that maintain the quotation. The recurring characteristics of going private companies may be summarised as follows:

- a lower degree of profitability (Dahiya & Klapper 2007; Aslan & Kumar 2010; Michelsen & Klein 2011; Kashefi Pour & Lasfer 2013);
- the relatively smaller size of the firm (Kieschnick Jr 1998; Gleason et al. 2007; Michelsen & Klein 2011);
- lower growth prospects (Lehn & Poulsen 1989; Marosi & Massoud 2007; Kashefi Pour & Lasfer 2013) and greater amount of free cash flow (Lehn & Poulsen 1989; Lee et al. 2010; Michelsen & Klein 2011; Belkhir et al. 2013), even if other studies provide opposite findings, both on the significance of the growth prospects (Michelsen & Klein 2011; Belkhir et al. 2013) and of the cash flow level (Eddey et al. 1996; Kieschnick Jr 1998; Weir et al. 2005b);
- relatively high leverage (Kashefi Pour & Lasfer 2013);
- potential for tax reductions (tax-shield effect) through future deductions related to the transaction (Kieschnick Jr 1998); however, Belkhir et al. (2013) find no relationship of this kind;
- the presence of non-optimal governance structures (Weir et al. 2005b; Charitou et al. 2007; Belkhir et al. 2013);
- a higher board ownership (Weir et al. 2005b; Weir & Wright 2006; Charitou et al. 2007; Marosi & Massoud 2007);
- the market undervaluation of the firm (Weir et al. 2005b; Weir & Wright 2006; Charitou et al. 2007; Lee et al. 2010; Michelsen & Klein 2011; Belkhir et al. 2013);
- the higher costs of being public (Gleason et al. 2007; Marosi & Massoud 2007; Hostak et al. 2013); *contra* (Bartlett 2009).

3.2 The Classification of Involuntary Delistings (Second Level)

In theory, an involuntary delisting might be the conclusion of a series of actions voluntarily taken by the listed company or the parties who control it. Consider, for example, the case in which a shareholder (or a coalition of shareholders) with a large majority of the share capital puts in place a strategy of creeping acquisition, or enters into agreements with other shareholders to reduce the volume of trade to an excessive degree, to the point of creating the conditions for the issue of a withdrawal order.

Or again, think of a partial spin-off of such magnitude as to change the financial-equity dimensions of the listed company so that they fall below the minimum levels required for listing.

In these circumstances, despite the fact that a withdrawal of quotations can be decreed by way of an order, one can identify some (more-or-less evident) voluntary elements.

As we see, a consideration of merely the technical motives for delisting, although they are certainly the simplest and most immediate classification criteria to apply, may not be fully sufficient to grasp the voluntary or involuntary nature of a delisting.

It is therefore helpful, at the theoretical level, to define an additional level of classification of involuntary delisting, which is the distinction between:

- *true involuntary delisting*, in which a company and those who control it, although wishing to maintain the listing, are unable to prevent the issuance of a withdrawal order (as in the case of a company that is declared bankrupt);
- *imperfectly involuntary delisting*, which occurs when those who have control of a company can identify to a more-or-less decisive extent actions of a type that create the conditions for the issuance of a withdrawal order, or the lack of the appropriate initiatives to prevent this measure for various reasons.

The practical application of the distinction in question, which still retains its validity at a theoretical level, is particularly complex, especially with regard to the identification of those situations in which the withdrawal is the effect of omissive conduct that is not easy to detect, trace or demonstrate.

3.3 The Classification of Voluntary Delistings (Second and Third Levels)

The dynamics of voluntary delistings without a doubt represent the most interesting fields of study. In this context, we believe that the most significant classification profile is the legislative environment in which the company operates after delisting.

A delisted firm normally maintains its own independent legal status and take the form of an unlisted company. These delisting are the effect of typical going private transactions.

Conversely, there may be cases where, through the delisting, the company loses its independent legal status, typically in the context of a merger, and continues to operate as a public company.

We label the operations of the former species as public-to-private delistings, while we denominate the transactions of the latter kind as public-to-public delisting.

The main source of interest in this distinction lies in the significant difference in the degree of complexity of the legislative framework for listed companies when compared with that for non-listed companies. This difference, which is associated with the more complex balance of interests that characterises listed companies, results in a far greater burden of direct and indirect obligations with a quotation, which is also identified as one of the principal reasons behind a decision to cancel the listing.

In the case of public-to-public delistings, the enterprise is absorbed by another listed company, usually through a merger into the parent company or a different firm. In these cases, in legal terms, there is no reduction in the regulatory constraints related to the listing (e.g., minority shareholders maintain the same rights). In economic terms, since the direct and, above all, indirect costs of a quotation are mostly fixed, one can achieve economies of scale associated with the increased size of the company.

It is clear that the study of the effects of public-to-private delistings provides much more interesting research opportunities. Among public-to-private delistings, a further distinction may be made between the cases in which the delisted company:

- is or becomes a part of a larger listed group (*hybrid delisting*), and
- operates totally outside of the stock market (*pure delisting*).

When the delisting is *hybrid*, the constraints associated with listing and the related actions and obligations that were the duty of the delisted company are also eliminated. However, some constraints and indirect obligations may remain due to the presence of a listed parent company (as an example, one might consider the need to produce the flow of information necessary for the preparation of consolidated half-yearly financial reports).

In situations of *pure* delisting, however, the effects of the delisting on the so-called indirect obligations of listing are the greatest—the company completely ceases to be subject to the obligations (transparency of information, protection of minorities, etc.) that are typical of listed companies.

The classification under review, which distinguishes voluntary delistings based on the legislative environment in which the delisted company is operating, allows cases of *public-to-public* delisting to be isolated from *pure* and *hybrid* delisting. In fact, the removal (*pure* delisting) or notable reduction (*hybrid* delisting) of the constraints relating to the listing may determinate totally different effects on the delisted company.

4. A Three-Dimensional Classification Framework for Public-To-Private Voluntary Delistings

The category of public-to-private voluntary delisting is certainly worthy of greater attention with regard to the study of the relations between corporate delisting, governance changes and value dynamics.

The proposed framework presupposes that the main profiles that characterise public-to-private voluntary delisting are as follows:

- the *party* who expresses the will to proceed with delisting (classification by *subject*);
- the purposes of the delisting from the perspective of the subject who is promoting the operation (classification by *purpose*);
- the functional status of the delisted company (classification by *operating conditions*).

Each of these profiles is interpreted as a classification direction, as explained in the next three sub-sections. In the fourth sub-section, the three main classification directions proposed are placed within a three-dimensional framework.

4.1 Classification According to the Subject Who Seeks to Promote the Delisting

The *subject* classification route is based on the identification of the subject who expresses the will to exclude the company from the listing. Given the great importance of a voluntary delisting operation to the economy of the delisted company, this profile can be made to coincide with that which in Italian accounting and business administration studies is defined as the "economic subject" of the company, i.e., using the definition by Onida, "*a person or group of persons who actually have and exercise the supreme power over the company, being subject only to the legal and moral constraints to which they must, or should, submit*" (Onida 1971).

It is important to recall that the concept of economic subject is of a substantial nature, and evades any attempts to formalise it in terms of positions and roles. By simplifying the matter, however, it is possible to identify the source from which the will to promote the delisting flows, making a distinction between companies with widely-spread share capital and those with tightly-concentrated capital, taking into account the wide diversity of the dynamics of governance that characterise the two contexts.

To be more precise, in the case of companies with widely-spread capital, the economic subject tends to be identified with the top corporate managers, who are normally the chief officers who are members of the board of directors. On the contrary, in enterprises with tightly-concentrated capital, the economic subject can be the shareholder (or the coalition of shareholders) who, directly or indirectly (that is, by exercising the power to appoint directors), can exercise control over company management.

The economic subject, as we have defined it, normally changes over time. In companies with widely-spread share capital, one may see a turnover of key managers for a variety of reasons, in terms of both career choices by the managers themselves and changes in their relations with shareholders or other top managers. In enterprises with tightly-concentrated capital, on the other hand, changes are mainly associated with a change of ownership, which may be modified for various reasons (among the most common of these are corporate aggregations, changes in controlling groups or the dynamics of generational succession).

The classification profile of delisting by *subject* identifies changes in the persons who are in the position of being economic subjects as a factor that characterises the dynamics of governance and the value of delisting transactions to a high degree. This distinction (continuity versus discontinuity of the economic subject) cannot take into account the changes in the economic subject that take place in the period immediately prior to delisting. The complexity of the transactions that generally lead to a change in the economic subject require that the period of observation be extended to an appropriate degree so as to cover changes in the economic entity that, although they may occur several months before delisting of the company, in fact constitute the fundamental strategic framework of the decision to terminate the listing.

It is interesting to recall that in studies on Anglo-American delistings, there is a general tendency to focus attention above all on going-private transactions, which are accompanied by substantial changes in ownership and control in advance or at the same time as the delisting. In effect, the characteristics of the environmental contexts of Anglo-American delistings—among which, in particular, there is a low concentration of the shareholder base, a very high degree of contestability of corporate control and an increased tendency on the part of enterprises to open up to the risk capital market—mean that delisting operations with discontinuity of the economic subject are more frequent.

Especially in markets characterised by differing structural elements, such as the Italian context, a classification of voluntary delistings based on the presence of a modification of the economic subject is particularly important, because it allows delisting strategies that are very different in terms of the dynamics of governance and creating value to be distinguished from one another. In the case of delistings that take place in a context of continuity of the economic subject, the company in fact remains within the same corporate group, and while there may be natural changes in management conditions, evaluations of financial aspects are still directed by the interests of the same subject. Conversely, a shift in the economic subject may lead to changes with a far broader scope, both to the structure and dynamics of governance and to the mechanisms of value creation.

By considering the main technical forms through which voluntary delistings can be carried out, we observe the following:

- in the event of a delisting following a takeover bid, and in cases of exclusion at the request of the issuer, any modification to the economic subject must be judged on the basis of the events related to the control structure of the delisted company in the period before delisting (for example, in at least the two previous tax years). If it is found that there has been a substantial change in control, it is reasonable to infer that there has been a change in the economic subject; otherwise, delisting can be considered as having been carried out in a context of continuity of the economic subject;
- in cases of a delisting following a merger, the following can be identified: 1) cases where the merger takes place between companies linked to the same economic subject (for example, where a company is incorporated into its parent), to which one can extend the points discussed above relating to the case of a takeover bid and voluntary exclusion; and 2) cases in which the merger involves companies owned by a number of economic subjects (for example, a joint merger), the classification of which intuitively includes more complex elements that are mainly associated with difficulties in identifying the economic subject in the phases following the operation; however, except in special cases, operations of this type are generally accompanied by a modification of the economic subject.

Finally, it is of interest to note that when a concentrated shareholding is also associated with the presence of an only slightly active market for corporate control, there are cases where the party that decides on the delisting may even be the same economic subject that had promoted the listing of the company in the first place, even a few years (or even months) after the IPO.

4.2 Classification Based on the Strategic Objectives Pursued With the Delisting Operation

The second line of classification of public-to-private voluntary delistings takes into account the *strategic objectives* pursued with the delisting operation, seen from the perspective of the subject that promotes the operation. In this context, it is possible to identify:

- delistings inspired by growth goals; that is, those cases in which the transaction falls within an overall long-term strategy (of expansion or diversification) that provides for integration of the delisted company within the business group headed by the subject who has expressed the desire to delist;
- delistings inspired by speculative goals or financial investment purposes (short- to medium-term perspective), in which the economic subject decides to discontinue the listing in order to create the optimal conditions for a series of actions to increase the economic value of the delisted company with a view to its sale (total or in parts) in a short to medium term. In this category, we may generally consider the cases of pure reverse leveraged buyout firms, i.e., firms going from public to private to public, after restructuring activities during the private period (Datta et al. 2013).

The information elements that may be considered in order to identify the objectives of the delisting correctly can be identified as follows:

- what is made public by the company and its key figures in the preliminary and implementation stages of delisting by means of communications to the market (such as documents, press releases or interviews);
- what emerges from observation of the actions taken by the economic subject in the period after delisting, over a sufficiently long period to allow identification of the salient features of the strategy relating to the observed operation.

4.3 Classification According to the Operating Conditions of the Delisted Company

The definition of the third line of classification of public-to-private voluntary delisting, which relates to the operating conditions of the delisted company (classification by *operating conditions*), presents more complex profiles than do the previous cases. In the case of listed companies, operating conditions can be followed by using two fundamental observation perspectives:

- based on the economic, financial and equity situation (actual and prospective), as can be deduced from documents published by the company and from the additional information made available to the public by its key figures;
- based on fluctuations in the company's share price and on other market information considered as indicators of the market's judgement of the firm's value and prospects.

In the light of the analysis of the reference literature carried out in Section 2, the factors that may have a decisive influence on the decision to delist are many, and are related to both observation profiles.

The element of greatest differentiation between company delistings as regards the operating conditions of a company is the existence of a situation of crisis or severe difficulty at a level that significantly compromises corporate profitability while not reaching a point requiring activation of a compulsory type of delisting procedure.

As amply demonstrated in the studies of company crises and turnaround processes, the presence of a situation of crisis or serious difficulty affects the relationship between the company and its stakeholders, and has a significant influence on both the aspects of corporate governance and the processes of value creation.

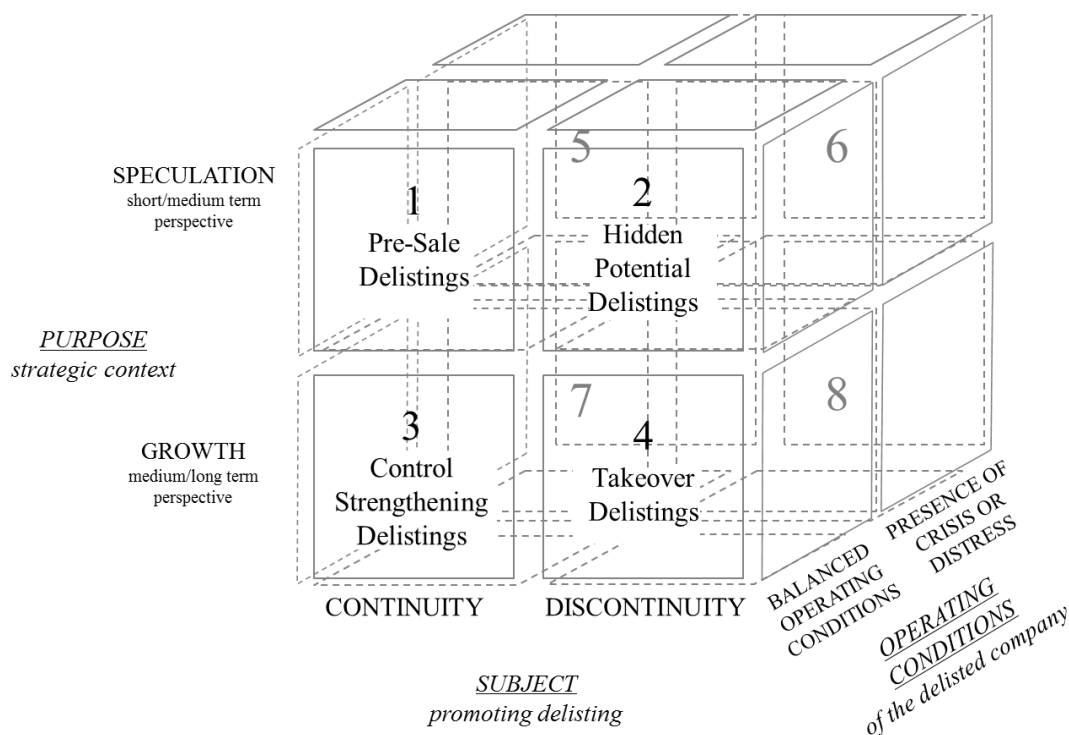
From an outside, observational perspective, verification of the existence of a situation of crisis or severe difficulty in a company can be concretely carried out by referring to the presence of distinct indicators, among which one might consider, for example:

- information obtainable from stock exchanges (for example, prices, spreads, liquidity, beta or abnormal returns), in cases where the characteristics of the financial markets make this information significant;
- explicit references to circumstances—specific and non-general—of crisis or severe company difficulties communicated in the annual report or by other means of disclosure;
- the continuing presence of losses, especially where linked to structural causes;
- a decrease in revenues accompanied by a loss of significant market share compared with competitors;
- a significant reduction in the number of employees;
- an excessive, uncontrolled and unjustified increase in the level of debt, especially if accompanied by the use of atypical or unusual forms of financing.

4.4 A Three-Dimensional Classification Framework

Considering the three lines of classification described above as a system, the following three-dimensional matrix is defined:

Figure 2 Classification framework for public-to-private voluntary delistings



The graphical representation illustrates that the three lines under consideration define eight ideal clusters of public-to-private voluntary delisting, each of which includes

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homogeneous operations relating to the three classification profiles reviewed (subject, purpose and operating conditions).

In particular, cases of the delisting of companies operating under conditions of substantial equilibrium (meaning the absence of circumstances of crisis or severe company difficulties), can be divided into:

- delistings carried out within the framework of speculative-type short- to medium-term strategies where there are no recent changes in the control structure (cluster 1). Using a term that sums up the fundamental dynamics of these operations, they can be defined as delisting preceding a transfer, or, more briefly, *pre-sale delistings*. In these operations the economic subject decides that it will be simpler or cheaper if the actions preparatory to a revaluation and optimal transfer of company control are conducted without the constraints associated with a listing. It should be made clear here that within this category there may be not only those cases in which delisting precedes the true, full transfer of the delisted company, but also, for example, cases of strategies that contemplate a significant post-delisting change in the controlling parties, a substantial change in the balance of power within the controlling coalition (if present), a partial sale of shareholdings leading to a change of control of the company (or a merger that has the same effect on the control structure) and a possible sale of business assets of a significant size with respect to the totality of activities managed by the delisted company;
- delistings for speculative purposes as wanted by a new subject (or coalition) that has recently become the economic subject (cluster 2). Delistings of this type can briefly be defined as *delistings driven by assessments of hidden potential* (or, more briefly, *hidden potential delistings*); the party who has acquired control before or simultaneously with the delisting is driven by purely speculative short- to medium-term goals, sees a margin for increasing the value of their financial investment in the short to medium term, and considers at the same time that these margins can be maximised rapidly and effectively by eliminating the constraints imposed by listing;
- delisting for the purpose of growth, and without recent changes in the control structure (cluster 3). The dynamics typical of these operations can be summarised in the expression *control strengthening delistings*; the economic subject (which in some cases may even be the same subject who had led the company in the process of accessing the regulated stock exchange market) radically changes their assessment of the relationship between costs and benefits associated with the listing, and decides that it would be better to get rid of minority shareholders (in the event of a delisting resulting in a takeover bid) or bring them within the minority of another company (usually the direct parent company) of the same group (in the event of delisting following a merger);
- delisting for the purpose of growth as a result of a change in the pre-existing economic subject (cluster 4); the dynamics that characterise these operations can be summarised by the term *takeover delistings*.

The same classification criteria can be applied to clusters 5 to 8, with the difference that, as might be expected, the presence of a situation of crisis or serious difficulty produces very significant consequences for the scale of the strategic options available to the economic subject who promotes the delisting.

5. Concluding Remarks

The study of the governance and value dynamics of firms after a delisting represent a relevant and still largely unexplored research domain.

As a fundamental preliminary step for this strand of research, our paper defines a new classification framework based on the most differentiating features for corporate delistings, as they emerge in international literature.

By outlining homogeneous observation contexts, our research has created better conditions for future studies aimed at understanding how delisting may affects the firm's governance system (proprietary structures, composition and operation of the board, internal auditing system, etc.), the dynamic of the corporate value (income, financial performance, risk, etc.), the quality of financial reporting, the relationships with stakeholders, etc.

As far as involuntary delistings are concerned, we highlighted the inadequacy of any definition based just on the mere technical form. Although it is certainly the simplest and most immediate classification criterion to apply, it should always be excluded that the involuntary nature of a delisting is not merely ostensible, thus hiding the dynamics that are typical of voluntary delistings.

Regarding voluntary delisting, our three-dimensional classification framework may help scholars to avoid the risk of a conjunct observation of public-to-private operations that differ too much one from the other. Its application in the process of refinement of the samples for future empirical studies may help researchers to achieve more reliable results. In fact, it could also be useful to review the existing research, in order to identify possible undisclosed limitations of our knowledge of the effects of voluntary delisting.

The inevitable elements of subjectivity in the identification of the profiles of classification may represent a significant limitation of the proposed model. However, the future application of the classification framework in various national contexts and within different time-frames may provide confirmations of its validity or highlight the changes to be made in order to reduce its limitations.

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