

Going Private and Going Dark Strategies: Literature Review and Directions for Future Research

Tiziano Onesti^{1,*}, Mauro Romano², Christian Favino² and Valerio Pieri¹

Corporate delistings can be related to a wide variety of circumstances and operations (going private transactions, going dark strategies, mergers, buy-outs, involuntary delistings, etc.), representing a very complex and highly differentiated phenomenon, whose relevance has recently increased as one of the many effects of the ongoing global financial crisis.

In this paper, on the basis of a systematic review of the existing international literature, we give reasons for the need for a wider and deeper theoretical framework for corporate delistings, which we consider to be an essential premise for the conduction of further studies on corporate governance changes and the dynamics of corporate value associated with going-private and going-dark strategies.

We provide a possible classification of corporate delistings 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 aspects: the subjects who pursue delisting, the strategic context and the operating conditions of the delisted company. We define some uniform areas of observation, which may represent a useful framework for future deeper studies concerning corporate delistings (pre-sale delistings, hidden potential delistings, control strengthening delistings and takeover delistings, either in balanced operating conditions or in presence of crisis/operating distress).

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1. Introduction

Delisting constitutes an important time in the life of a company; after sustaining the costs of listing and having accepted deep organisational and governance changes, the company chooses, or in some cases suffers, the cancellation of its stock title from the regulated market listing. Therefore, the stock title ceases to be traded in accordance with the procedures and rules set by the stock exchange.

This occurrence—which, as will be explained below, can be the result of a voluntary choice or can represent the consequence of failing to meet listing requirements—significantly influences corporate strategies, even though it is a widespread opinion that delisting is in many cases connected to the relaxation of advisory transparency restrictions and strictness of the corporate governance rules and the corporate auditing system.

On further inspection, delisting is a complex and strongly differentiated phenomenon; the cessation of listing can, in fact, be connected to a variety of very wide circumstances and

¹Department of Business Studies, Roma Tre University - Via Silvio D'Amico, 77 - 00145 - Roma, Italy

²Department of Economics, University of Foggia – Via Caggese, 1 – 71121 - Foggia, Italy

* Corresponding author. Tel.: + 39 06 5733 5822. E-mail address: tiziano.onesti@uniroma3.it

operations, each of which has specific and peculiar dynamics with reference to the subjects involved, motivations, technical solutions, as well as in terms of effects on the economy of the delisted company and on the relationships with stakeholders.

The issue is also extremely current if we consider that—in the context of the capital market crisis—the phenomenon seems to be accelerating; it already occurred with the shortcoming of the speculation bubble in 2000 and it is occurring again with the economic-financial crisis that has been impacting the global economy for the past few years.

In this paper, we give our proposal for a theoretical framework for corporate delistings, with a particular focus on those voluntary delistings that are associated with going-private and going-dark strategies. Corporate delistings have been, until now, the subject of rather limited attention by international literature, although they certainly represent an interesting issue that deserves adequate inspection. Our classifying intent stems from the need to define, on one hand, the motivations that subtend delisting strategies and, on the other, to investigate the main changes that delisting causes to corporate accounting, governance and performance.

The paper proceeds as follows: Section 2 describes the results of a systematic review of the international literature on corporate delistings; Section 3 explains the main reasons why we think the definition of a framework for corporate delistings is a necessary condition for the conduction of further studies; Section 4 presents a possible multi-dimensional framework for corporate delistings, followed by conclusive remarks in Section 5.

2. Literature Review

The delisting phenomenon is an issue that still remains little investigated in many countries. In the Italian literature, for example, this is possibly justified by the internal characteristics of the capitalist system and the fairly small number of companies who leave the regulated market, voluntarily or because they have been obliged to do so.

Internationally (especially in countries that follow Anglo-American principles), on the other hand, we see greater attention being paid to operations aimed at the abandonment of the regulated market, and, for this reason, we considered it appropriate to undertake a systematic analysis of the international literature to identify the knowledge objectives pursued by the most authoritative doctrine in the various scientific papers.

From an operational point of view, the review of the literature was carried out by consulting the major scientific databases—namely, ISI Web of Science, Scopus and ScienceDirect—using specific keywords and subsequently refining the search results.¹ We selected 43 papers published between 1986 and 2011 (see Appendix 1), which we classified according to the following characteristics:

1. the particular type of delisting that was the subject of the study;
2. the area of interest of the paper;
3. the context (geographical-cultural and historical);
4. the research methodology and the analysis tools used.

Regarding the first aspect, relating to the subject matter of the publications examined, it should be noted that although delisting constitutes a unitary phenomenon from the legal

and formal perspective, it may be connected with operations of a far different nature from a financial-substantive viewpoint.

An analysis of the subject-matter of the various papers revealed that international literature has dealt with delisting by distinguishing:

- the withdrawal of shares as the result of a going-private transaction; that is, an operation which, through the use of various technical methods (for example, a full public take-over bid) leads to the zeroing out of (or a significant reduction in) the number of shares in circulation, which indirectly brings about the withdrawal of the shares from the stock exchange list due to the lack of outstanding shares;
- exclusion of the quotation as the result of a going-dark strategy;
- the termination of a secondary listing (so-called cross-listing);
- involuntary delisting, that is, forced withdrawal from the list due to the absence of the requirements necessary to maintain a quotation.

Finally, a number of papers were discovered that had the purpose of carrying out a joint study of the different forms of delisting mentioned above.

Table 1: Classification by subject of study

Concept of delisting	
Consequence of a going-private transaction	30
Going dark	4
Termination of cross-listing	3
Involuntary delisting	4
Joint analysis of different forms of delisting	2
Total	43

The second analysis profile relating to the area of interest of each paper led to the identification of four key thematic areas, which can be described as follows:

- A. most-common characteristics of delisted companies and motives that may lead to delisting (we called this first thematic area the "*ex ante perspective*");
- B. effects of delisting on the financial results of the company and on the interests of the shareholders ("*restricted ex post perspective*");
- C. consequences of delisting on the dynamics of governance and the interests of stakeholders ("*broad ex post perspective*");
- D. how the laws and regulations of financial markets and corporate governance may affect the delisting decisions ("*institutional perspective*").

Table 2: Classification by area of interest

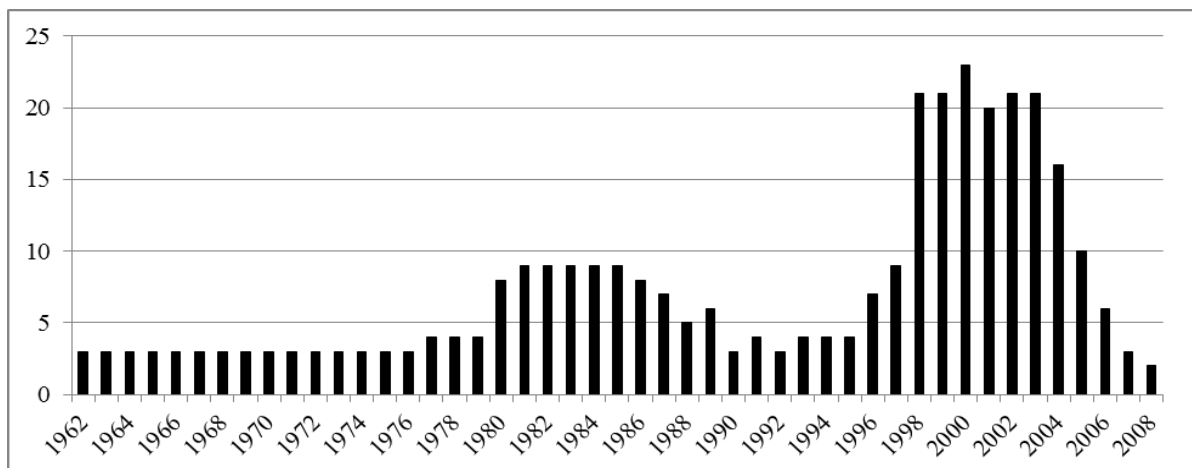
Area of interest	Papers
Most-recurring features of delisted companies and motivations leading to the delisting decision (ex ante perspective)	17
Delisting effects on companies' economic-financial results and stakeholders' interests (ex post perspective - restricted)	10
Delisting effects on governance dynamics and stakeholders' interests (ex post - wide perspective)	3
How the laws and regulations on financial markets and corporate governance affect delisting decisions (institutional perspective)	13
<i>of which, in particular, SOX effects</i>	10
Total	43

Some papers include aspects relating to different topic areas; in particular, it is common for some of the articles from the first three classes to make an attempt to report their conclusions from a broader (institutional) perspective, in order, for example, to provide elements that support the decisions of the legal and regulatory authorities of the various countries.

The third profile of our literature analysis is related to the frame of the various publications, both in the temporal sense (by considering the time frame of empirical studies), and in the spatial and cultural sense (by taking into account the country being observed). In fact, the determination of the frame of reference of a paper is vital when studying complex economic phenomena such as delisting, because even conclusions that have been scientifically validated within a given context (in terms of time and space) cannot necessarily be considered as equally valid in other contexts.

As for the time frame of the studies, we conducted a simple time frame analysis of the 40 empirical studies that were selected (please note that the 3 theoretical papers were excluded from this further analysis). On the whole, the time frames range between 1962 and 2008, and the graph below shows the total number of studies that take into account each of the years from 1962 to 2008 in their empirical analyses.

Figure 1: A summary of the time frames of the selected empirical papers



The graph shows how many papers take into account each of the years from 1962 to 2008 (i.e., the overall timeframe of the 40 empirical studies that were selected and analysed). For example, the paper by Weir and Wright (2006), which takes into account 1998 to 2000 data, is counted in the total number of studies for the years 1998, 1999 and 2000. The fact that the paper was published in 2006 is irrelevant.

We identified two periods on which the studies in the international literature were mainly focused, namely 1980 to 1987 and 1998 to 2004. As for the 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.

In regards to the spatial and cultural frames of the studies that were selected, we observed a large focus on the U.S. and U.K., as shown in Table 3 below, which could reflect 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.

Table 3: Classification by geographical and cultural context

Geographical and cultural context	Papers
U.S.	26
U.K.	7
Southeast Asia	4
	<i>Malaysia, Singapore</i> 2
	<i>Malaysia</i> 1
	<i>South Korea</i> 1
Commonwealth Area	3
	<i>Canada</i> 1
	<i>Australia</i> 1
	<i>New Zealand</i> 1
Continental Europe	1
	<i>Germany</i> 1
Cross-country comparison	2
	<i>Switzerland, Germany, Japan</i> 1
	<i>Australia, Canada, France, Germany, Japan, U.S., U.K.</i> 1
Total	43

The last classification profile consisted in the prevailing research methodology (empirical or theoretical) and the principal investigative tools (quantitative or qualitative) of the examined studies. In this regard it is noted that the literature on delistings has, with very few exceptions, used empirical research with primarily quantitative research methods.

Table 4: Classification by prevalent research methodology and main method

Prevalent research methodology and main method	Papers	
A. Recurring features of delisted companies and motivations leading to delisting	17	
Empirical researches	16	
<i>Quantitative methods</i>		16
Theoretical researches	1	
B. Delisting effects on companies' economic-financial results and on stakeholders' interests	10	
Empirical researches	10	
<i>Quantitative methods</i>		10
C. Delisting effects on governance dynamics and on stakeholders' interests	3	
Empirical researches	1	
<i>Qualitative methods</i>		1
Theoretical researches	2	
D. Institutional perspective: gearings of market functioning, incidence of rules in corporate governance.	13	
Empirical researches	12	
<i>Quantitative methods</i>		12
Theoretical researches	1	
Total	43	

In particular, with regards to the former strand of studies (on the characteristics of delisted firms and the underlying reasons for the delisting), a very considerable use of quantitative models of logistic regression was found; these are well suited to identifying the variables that most differentiate delisted companies from those that remain listed. With regard to the studies on the effects of delisting (the effects on corporate-financial results and the dynamics of corporate governance), however, it should be emphasised that the focus of most of the studies was the effects of delisting (or the mere announcement of a delisting) 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; however, the methodology adopted is mainly speculative and theoretical, while in the case of empirical contributions, qualitative methods (for example, case studies) are used. One possible reason for this finding may be the difficulties encountered in finding information on the effects of delisting that could be considered adequate in terms of quantity, completeness, reliability and verifiability for the application of statistical models. In fact, even when it is possible to obtain information on the post-delisting period, it is voluntarily provided by delisted firms themselves and therefore ends up ineluctably biased.

The review findings allow for a systematic framework of the main perspectives used in the context of the international literature to classify the various cases of delisting, outlined below. This analysis represents a fundamental phase for the definition of the new theoretical reference model that will be illustrated in Section 4.

Depending on the various lenses with which one might wish to examine delisting, it is possible to distinguish the following research perspectives:

- the voluntary or forced nature of the cancellation;

- the characteristics of the delisted company, and the market environment in which the delisting operates;
- the subject that takes the decision to cancel, and the strategic aims of the operation.

According to an initial approach that is widely used in the literature, it is appropriate to distinguish the cases of voluntary delisting from those in which delisting is of a prescriptive or compulsory nature (Marosi and Massoud, 2007; Macey *et al.*, 2008). In the former case (voluntary delisting), the abandonment of the quotation is the result of a specific operation carried out voluntarily by the person (or group of persons) that *de facto* controls the firm. Involuntary (or forced) withdrawal, on the other hand, takes place when a listed company is not in a position to guarantee the stability of the conditions and minimum requirements called for in the regulations governing entry into, and continued presence in, regulated markets.

The main factors that justify recourse to a voluntary delisting strategy can be identified as: a) the need to realign interests between the ownership and those who exercise *de facto* control over the firm (Renneboog *et al.*, 2007); b) the desire on the part of management to reduce the risk of a hostile takeover (Lowenstein, 1985), especially in the event of undervaluation of shares; and c) the need to reduce excessive costs (both direct and indirect) associated with presence on the regulated market (Marosi and Massoud, 2007; DeAngelo *et al.*, 1984).

Conversely, the circumstances that may lead to a forced exit from the regulated market may include: the presence of weak trading and/or free float; being subject to insolvency proceedings; failure to bring governance systems up to date; or the presence of accounting irregularities, fraud or other circumstances that raise doubts about the reliability of the issuing company (Harris and Panchapaegesan, 2008; Macey *et al.*, 2008).

A second profile to which the doctrine has dedicated prolonged attention is the identification of possible correlations between cases of delisting and the characteristics of the company or market environment in which the cancellation operation is carried out. The main scientific papers reviewed demonstrate, based on empirical evidence, that the delisting phenomenon is positively correlated with the following conditions:

- a lower degree of profitability (Dahiya and Klapper, 2007; Aslan and Kumar, 2010; Michelsen and Klein, 2011);
- the relatively smaller size of the firm (Kieschnick Jr, 1998; Gleason *et al.*, 2007; Michelsen and Klein, 2011);
- lower growth prospects (Lehn and Poulsen, 1989; Marosi and Massoud, 2007); *contra* (Michelsen and Klein, 2011);
- a greater amount of free cash flow (Lehn and Poulsen, 1989; Lee *et al.*, 2010; Michelsen and Klein, 2011); *contra* (Eddey *et al.*, 1996; Kieschnick Jr, 1998; Weir *et al.*, 2005b);
- the firm's potential for tax reductions through future deductions related to the transaction (Kieschnick Jr, 1998);
- the presence of non-optimal governance structures (Charitou *et al.*, 2007; Weir *et al.*, 2005b);
- a higher board ownership (Weir and Wright, 2006; Weir *et al.*, 2005b; Marosi and Massoud, 2007);
- a systematic firm undervaluation (Weir *et al.*, 2005b; Weir and Wright, 2006; Lee *et al.*, 2010; Michelsen and Klein, 2011);

- the higher costs of being public (Marosi and Massoud, 2007; Gleason *et al.*, 2007); *contra* (Bartlett, 2009).

A final analysis perspective of delisting focuses on the features of the person that takes the decision to exit the regulated market, and the related reasons behind this decision. From this perspective, it is first possible to distinguish the cancellations arranged independently by stock exchange operators from those that are approved by the party that has control of the firm. In the latter case, it is possible to further differentiate the cases in which the decision is taken by the prior main shareholder (or by management) or by a new external entity that presses for delisting in the context of a broader acquisition strategy to gain control of the company.

In the event that the delisting falls within the overall strategy pursued by a new party that intends to acquire control of the company, we must distinguish cases where it is possible to discern a strategic-industrial or speculative type of objective that lies behind the new buyer's decision.

In the former case (for purposes of a strategic-industrial nature), the purchaser usually owns a larger group of companies (listed or unlisted), within which it plans to take the delisted company, following a strategy of integration or diversification. In the latter case (speculative purposes), the purchaser is generally a financial operator that aims to realise its investment in the medium term, and is therefore interested in supporting or reorganising the business and then putting it back on the market within a longer or shorter period of time, possibly through a new listing on the market.

3. The Need for a Theoretical Framework

Corporate delistings, which can be defined at a technical-formal level as the definitive removal of a listed stock from a regulated exchange, are a very complex phenomenon, and they can be extremely differentiated when analysed from a deeper perspective. In fact, delisting can be associated with a wide range of circumstances and operations, each of which has special characteristics and dynamics with regard to the parties involved in it for various reasons, the underlying motivations and the effects on the economy of the delisted company and its stakeholders.

It emerges from an analysis of the international literature that delisting operations do not represent a single area of study. In fact, scholars tend to concentrate on particular types of delisting (going-private transactions, going-dark strategies, involuntary delistings or termination of a cross listing) and focus their attention each time on the features that are common to delisted companies and on the motivations for the various operations (*ex ante perspective*), the effects of delisting (*ex post perspective, more or less broad*) or on an examination of the main issues of interest to the parties who have been given responsibility for defining the rules governing the operation of financial markets and regulating the corporate control market (such as national legislators, regulatory and supervisory authorities and stock exchange operators) (*institutional perspective*).

The relatively small number of papers on this subject also highlights a lack of attention to delisting operations on the part of the international literature; not only is the number of studies on this subject extraordinarily limited, but the efforts of scholars have been focused almost exclusively on the U.S. market, with very short observation periods. This lack of

attention towards delisting is also evidenced by the unavailability of comprehensive and detailed statistics on delisting. Even in the most important markets, withdrawals are often not included among the phenomena that are the subject of systematic, official statistical monitoring, and the information gathered is not disclosed to the public, as opposed to what normally occurs with new listings. The most common databases (such as Datastream, Osiris and Worldscope) do not offer complete coverage on delisted companies, which after delisting are classified in a different manner, as “dead”, and all statistical monitoring of them is therefore interrupted, and they can even be removed from the consultable database.

Under these circumstances, in the face of an extremely complex phenomenon with a very high number of variables, we believe that a significant starting point might be found in the identification of one or more lines of classification that might facilitate the development of wider studies and more in-depth analyses, thereby avoiding the possibility that 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. This paper, therefore, proposes a possible model for the classification of corporate delistings, the aim being to permit a delineation of homogeneous observation contexts within which to carry out more in-depth studies.

It should be observed at the outset that 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 (Malafsky and Newman, 2009; Calero *et al.*, 2008; Gilchrist, 2003). 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 (Skovira, 2008).²

The usefulness of this employment of taxonomy (Pellini and 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 and 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 the classification model proposed in the next section, 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. 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.

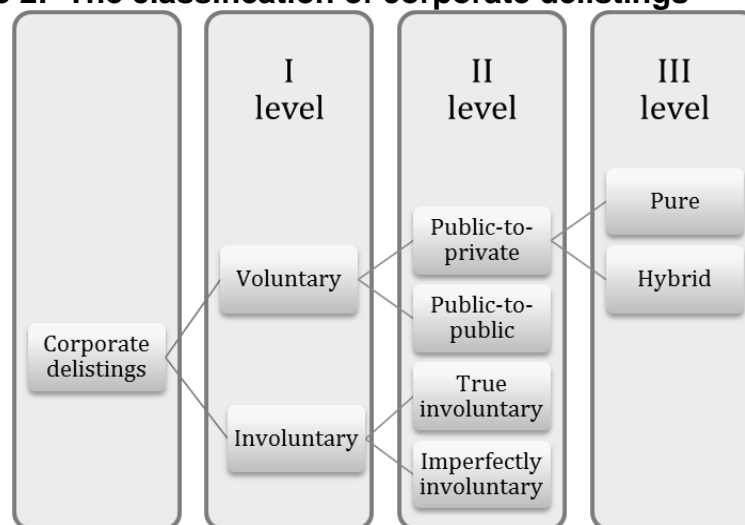
It must be stressed that the limited number of available observations, and the inevitable element of subjectivity in the choices made in order to identify the profiles of classification of delisting, undoubtedly represent the most significant limitations of the proposed model, and mean that the results must be considered using extreme caution.

4. A Proposal for a Multi-Dimensional Framework

4.1. The classification of corporate delistings

This sub-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 sub-section 4.2 below.

Figure 2: The classification of corporate delistings



The factors considered in the classification are explained in the following sub-paragraphs.

4.1.1. The first level of classification of corporate delistings: voluntary and involuntary delistings

The element of greatest differentiation among delisting operations comes from their voluntary or involuntary nature. In particular, delistings may be considered to be "voluntary", where the observed company, or the parties that control and govern it, put in place the operations necessary to create the conditions for achieving delisting through a variety of technical methods. It should be noted that only in voluntary delistings is it possible to identify true "delisting strategies" endorsed by the parties who govern the firms concerned. In the case of involuntary delistings, on the other hand, the company (and those who control it) 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. In this regard, there are peculiarities in the legal systems of the various countries, although we have seen a gradual process of regulatory harmonisation, at least at the European level. Withdrawals arising out of 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 can commonly be identified with the notion of voluntary delisting. This category includes the cases of delisting identified in the international literature as going-private transactions or going-dark transactions.

Involuntary company 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. Leaving aside the differences between the laws of different countries, the most common reasons are technical delisting, involuntary admission to bankruptcy or liquidation of the company and the lack of the conditions for a continued listing.

4.1.2. The classification of involuntary delistings (second level)

It cannot be excluded, at least in theory, that a delisting that takes place following an obligatory type of order might only be the inevitable conclusion of a series of actions taken voluntarily 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 not able 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.

4.1.3. 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 among the potential profiles for the classification of voluntary delisting is the varying legislative environments in which the company is included after voluntary delisting.

In fact, after delisting, a firm might take the form of an unlisted (public-to-private) or listed (public-to-public) company, if the delisted company maintains its own independent legal status, or if it is lost in the context of a merger.

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 cases where the legal status of an enterprise after delisting is that of an unlisted company, there is the further distinction of the case in which the company is a part of a larger listed group (*hybrid delisting*), and that in which the company is included in a context that is totally outside 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.

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 company. 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.

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 which the removal (pure delisting) or notable reduction (hybrid delisting) of the constraints relating to the listing can play a significant role in both the creation phase of the desire to proceed with cancellation and the actions following the exit from the list.

4.2. A theoretical framework for voluntary delistings

The category of 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 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.

4.2.1. 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, 1971:22).

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 change 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.

4.2.2. Classification based on the strategic objectives pursued with the delisting operation

The second line of classification of 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.

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.

4.2.3. Classification according to the operating conditions of the delisted company

The definition of the third line of classification of 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.

We believe that 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.

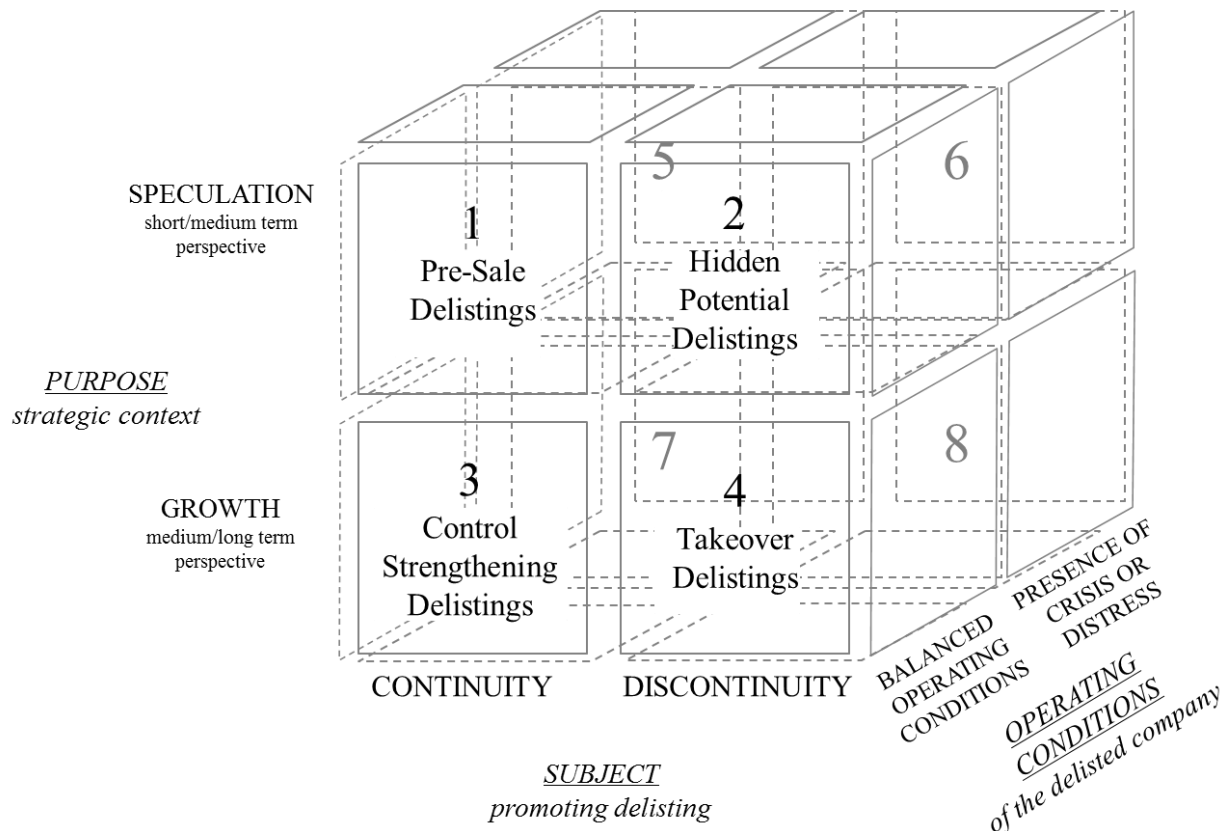
From an outside, observational perspective, verification of the existence of a situation of crisis or severe difficulty in a company can be concretely carried out by referring to the presence of distinct indicators, among which one might consider, for example:

- 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.

4.2.4. A multi-dimensional framework for voluntary delistings

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

Figure 3: A theoretical framework for voluntary delistings



This graphical representation illustrates that the three lines under consideration define eight ideal clusters of voluntary delisting, each of which includes homogeneous characteristics 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, clusters 1 to 4), 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

Corporate delistings represent a complex phenomenon, strongly differentiated in various profiles: the subjects, the underlying motivations, the technical forms and the variables involved.

The general disinterest in the phenomenon is proved by the unsystematic nature of its statistical monitoring, both by the authorities who manage the stock markets, who instead place a great deal of attention on initial listing cases, and by the specialised databases, who limit their activity to recording the delisting in the mere technical-formal aspect of definitive cessation of listing, without any further information on the circumstances of the operation.

Investigating corporate delisting more in depth in its economic-substantial aspects, the limits of any approach of observation and analysis that claims to be able to consider it as a unitary phenomenon are revealed. In fact, the various cases of delisting are characterised by the interweaving of a host of variables, often connected with each other, which make the consideration of the economic-corporate context in which the decision is made to proceed with abandoning listing indispensable.

In this perspective, in the intent to fix adequately well-defined and uniform areas of observation, some of the main variables that characterise corporate delistings were taken into consideration and various classification criteria were proposed. In particular, after having taken into consideration the main aspects connected to the technical form of delisting, as well as the relative legal aspects (*legal-formal* classification profiles), some economic-substantial variables were also examined that qualify the various operations and relative reference contexts.

Regarding the legal-formal classification profiles, we began with the fundamental distinction—widely encoded in existing international studies on the issue—between voluntary and involuntary delisting; both categories were the subject of further classifications.

With reference to voluntary delisting, three fundamental principles of classification were identified concerning:

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

These policies, appropriately examined, allowed eight uniform areas of observation to be defined, synthetically identified 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).

In conclusion, it is necessary to specify that the effort of classification and definition of a taxonomy of corporate delistings is preparatory to a subsequent deeper look at some effects stemming from the operation. In particular, these effects concern changes in terms of the quality of the financial advice provided externally, changes to the governance system intended in a wide sense (proprietary structures, composition and operation of the board, internal auditing system structure, etc.) and the dynamic of the corporate value (income and financial performance, value of the stock, etc.).

In this perspective, it could be interesting to test our classifications in various national contexts. In the same way, it could be useful to take a more in-depth look at the delisting phenomenon on a temporal level, connecting its trends to precise situations such as, for example, a financial crisis, or the adoption of new accounting standards or a new regulatory measure, with the goal of assessing the impact of irregular elements on the significance and characteristics of the phenomenon observed and on the effects stemming from it.

Endnotes

¹ The literature review, which is updated with the contributions published in July 2011, has been conducted by developing the steps briefly described below:

Step I. Keywords selection

When consulting databases, specific keywords were used (“delisting”, “going private”, “going dark”, “public to private” and their possible combinations and declinations) that only relate to the operations of exiting the regulated market, while excluding other keywords that, although they may be related to operations that frequently lead to delisting, represent a phenomenon other than that being studied. The research contribution was also limited to the areas of study related to accounting and business administration (for ISI Web of Knowledge: business economics and social sciences; for Scopus and ScienceDirect: economics, econometrics and finance, business, management and accounting, decision sciences and social sciences).

Step II. Construction of the aggregate paper database

The results obtained in the various studies were aggregated using bibliographic management software, with elimination of all duplicates, resulting in 425 items.

Step III. Selection of the relevant contributions

The aggregate database was the subject of progressive refinements that aimed at excluding non-relevant items:

- clearly off-topic articles were eliminated (190), taking into account for this purpose the scientific field of the publishing location, the title and, in some cases (for example, generic title) also the abstract (where available);
- the editorial position was then analysed in more detail, eliminating articles published in non-scientific journals (19) and papers with marginal editorial significance and low availability (19); with regard to articles published in legal journals, contributions relating to aspects of a strictly legal nature were eliminated (24);
- the importance of the remaining items (173) was then verified by analysis of the abstracts; 105 publications that were only marginally relevant to the topic of research were eliminated.

This refinement process made it possible to identify 68 papers of probable or certain relevance to the research, for which analysis was extended to the full text of the publication. A detailed analysis of the subject and purpose of each study led to the elimination of a further 25 papers that did not include items of interest.

It should be pointed out that contributions that were not available through the databases consulted were excluded from review. In particular, the review did not consider papers available from other sources— including, for example, the Social Science Research Network, where it is possible to find some interesting contributions, e.g., Renneboog and Simons (2005)—and all publications other than papers (for example, books and sections of books).

² Skovira (2008) observes that taxonomies as conceptualizations, in their short versions, represent categories or metaphors by which experience and learning are organized (Bruner *et al.*, 1972; Frake, 1972; Lakoff and Johnson, 1980; Norman, 1983; Pinker, 1999, 2007; Stuertervant, 1972). The taxonomies provide key concepts and terms to be used in conversations (discussions) and writing. They provide conceptual categories for the organization of the experience and thinking (and writing). A taxonomy represents a conception, domain or frame, at a general level; similarly, a situational use of the terms of a taxonomy represents an understanding of a conception, frame or domain, in a specific instance or a particular case. A taxonomy represents a domain or knowledge space and represents a looked-for pattern of use. It provides a set of recognizable “marks”, “tags”, or “hooks” (the key terms) signifying an understanding and reflexivity that show up in the words used and implied or referenced context in a response (Dewey, 1938; Lakoff, 2000). The uses of marks, tags, or hooks indicate a particular take on the matter. The taxonomies also represent, in a manner of speaking, how logically structured observations are made.

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Appendix 1 - Literature review

<i>I. Studies on the quotation withdrawal as the result of a going-private transaction</i>			
Contribution	Main area of interest*	Prevailing methodology and main method	Context of reference countries, time
Achleitner <i>et al.</i> , 2010	C	Empirical - Qualitative	U.K.; 2003
Amoakoadu and Smith, 1993	B	Empirical - Quantitative	Canada; 1977–1989
Aslan and Kumar 2010	B	Empirical - Quantitative	UK; 1996-2006.
Bartlett 2009	D2	Empirical - Quantitative	USA; 1998-2001, 2003-2006.
Chi <i>et al.</i> 2010	A	Empirical - Quantitative	New Zealand; 1991-2005.
Denis 1992	A	Empirical - Quantitative	USA; 1980-1987.
Doidge <i>et al.</i> 2010	D2	Empirical - Quantitative	USA; 2002-2008.
Eddey <i>et al.</i> 1996	A	Empirical - Quantitative	Australia; 1988-1991.
Engel <i>et al.</i> 2007	D2	Empirical - Quantitative	USA; 1998-2005.
Gleason <i>et al.</i> 2007	D2	Empirical - Quantitative	USA; 1998-2003.
Halpern <i>et al.</i> 1999	A	Empirical - Quantitative	USA; 1981-1986.
Hansen <i>et al.</i> 2009	D2	Empirical - Quantitative	USA; 1962-2005.
T. S. Harris 2009	D2	Empirical - Quantitative	USA; 1962-2005.
Henderson and Epstein 2009	A	Theoretical	USA
Iliev 2010	D2	Empirical - Quantitative	USA; 2002-2007.
Kamar <i>et al.</i> 2009	D2	Empirical - Quantitative	USA; 2000-2004.
Kieschnick Jr 1998	A	Empirical - Quantitative	USA; 1980-1987.
Lee <i>et al.</i> 2010	A	Empirical - Quantitative	Malaysia; n.a..
Lehn and Poulsen 1989	A	Empirical - Quantitative	USA; 1980-1987.
Leuz 2007	D2	Empirical - Quantitative	USA; 1999-2006.
Michelsen and Klein 2011	A	Empirical - Quantitative	Germany; 1996-2004.
Mohan and Chen 2007	D2	Empirical - Quantitative	USA; 2000-2003.
Renneboog <i>et al.</i> 2007	B	Empirical - Quantitative	UK; 1997-2003.
Schneider and Valenti 2010	C	Theoretical	USA
Schneider and Valenti 2011	C	Theoretical	USA
Slovin <i>et al.</i> 1991	B	Empirical - Quantitative	USA; 1980-1988.
Weir and Wright 2006	A	Empirical - Quantitative	UK; 1998-2000.
Weir <i>et al.</i> 2005a	A	Empirical - Quantitative	UK; 1998-2000.
Weir <i>et al.</i> 2005b	A	Empirical - Quantitative	UK; 1998-2000.
Weir <i>et al.</i> 2008	A	Empirical - Quantitative	UK; 1998-2001.
<i>II. Studies on exclusion from listing as a result of a going-dark strategy</i>			
Contribution	Main area of interest	Prevailing methodology and main method	Context of reference countries, time
Coles 2008	A	Empirical - Quantitative	USA; 1998-2004.
Fried 2009	D	Theoretical	USA.
Leuz <i>et al.</i> 2008	A	Empirical - Quantitative	USA; 1998-2004.
Marosi and Massoud 2007	A	Empirical - Quantitative	USA; 1996-2004.

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* *Main area of interest labels:*

- A: Recurring features of delisted companies and motivations leading to delisting;
- B: Delisting effects on companies' economic-financial results and on stakeholders' interests;
- C: Delisting effects on governance dynamics and stakeholders' interests;
- D: Insitutional perspective: gearings of market functioning, incidence of corporate governance rules;
- D2: Effects of Sarbanes-Oxley rules.

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III. Studies on termination of secondary listing cross-listing			
Contribution	Main area of interest	Prevailing methodology and main method	Context of reference countries, time
Meera et al. 2000	B	Empirical - Quantitative	Malaysia, Singapore; 1998.
Pfister and von Wyss 2010	B	Empirical - Quantitative	Switzerland, Germany, Japan; 1997-2008.
Sun et al. 2002	B	Empirical - Quantitative	Malaysia, Singapore; 1989,1998.
IV. Studies on involuntary delisting			
Contribution	Main area of interest	Prevailing methodology and main method	Context of reference countries, time
Chandy et al. 2004	B	Empirical - Quantitative	USA; 1989.
Charitou et al. 2007	A	Empirical - Quantitative	USA; 1998-2004.
Macey et al. 2008	B	Empirical - Quantitative	USA; 2002.
Sanger and Peterson 1990	B	Empirical - Quantitative	USA; 1962-1985.
V. Studies on cross-analysis of the different forms of delisting			
Contribution	Main area of interest	Prevailing methodology and main method	Context of reference countries, time
Dahiya and Klapper 2007	D	Empirical - Quantitative	Australia, Canada, France, Germany, Japan, USA, UK;1993-2003.
Dewenter et al. 2010	D	Empirical - Quantitative	South Korea; 1999-2002.