

Delistings in Europe and the Costs of Governance

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April 3, 2007

Abstract:

Both in the USA and in Europe there has been an increase in delistings in recent years, which has been partly attributed to increasing governance costs for listed companies. The question is whether stronger corporate governance regulation brings sufficient improvements in investor confidence to cover increased costs of disclosure and box checking as well as lower flexibility in board structure etc. To answer this question we analyze the determinants of 3577 delistings among 12612 companies listed on European stock exchanges 1995-2005. We find that stronger minority investor protection and the adoption of corporate governance codes are associated with a higher delisting frequency both by M&A and going private transactions. In contrast better overall governance (as measured by a modified version of the World Bank governance index) is associated with lower going private rates. The policy effects on delistings turn out to be particularly strong and significant for small firms, profitable firms and in the post-2000 bear market. Taking into consideration that corporate governance policy may be endogenously determined, we find that investor protection and a composite corporate governance index tend to lead to more going private transactions. Our results therefore indicate that there are costs as well as benefits to corporate governance regulation.

Keywords: delisting, public listing, mergers, acquisitions, bankruptcy, liquidation, going private, private equity, investor protection