

Delisting Brazilian Public Companies: Empirical Evidence about Corporate Governance Issues

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ABSTRACT

This paper proposes to analyse the relationship between corporate governance and delisting process of public companies listed on the Brazilian Securities, Commodities and Futures Exchange (Bolsa de Valores, Mercadorias e Futuros de São Paulo – BM&FBovespa). The sample comprises 86 voluntary delisting operations in 2008-2012 period and a matching sample with companies that remained public, identified here as “comparable”. A corporate governance index comprising four dimensions (ownership structure, ethics and conflicts of interest, disclosure and board of directors) and a set of 16 questions was used to analyse the two groups. As expected, delisted companies score lower than their comparable ones in the broad index. However, board of directors, disclosure and ethics and conflicts of interest dimensions didn’t show statistical significant differences between the two groups. In the ownership structure dimension the issues related to concentration of control differentiate the groups. Despite the mean differences, corporate governance doesn’t seem to impact significantly the chances to delist in a model with ownership structure and financial variables.

Keywords: Corporate governance. Corporate governance index. Delisting (going private).

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1 INTRODUCTION

This paper is a result of a research project that discusses the delisting process of public companies listed on the Brazilian Securities, Commodities and Futures Exchange (Bolsa de Valores, Mercadorias e Futuros de São Paulo – BM&FBovespa). The research project was divided into two main purposes: (a) one investigates the delisting determinants factors of listed companies on BM&FBovespa (BORTOLON; SILVA JUNIOR, 2015) and (b) the other investigates the relation of corporate governance and delisting on BM&FBovespa and it is presented in this paper.

Theoretically, this study is anchored on corporate governance theory, specifically on the theory of ownership, agency and finance (BLAIR, 1995; HART, 1995; PAGANO; ROELL, 1998; JENSEN; MECKLING, 1976; MAURY; PAJUSTE, 2011) and the positive approach to account phenomena (WATTS; ZIMMERMAN, 1986). Corporate governance discussion was originated in Adolf A. Berle and Gardiner C. Means's classical studies in the 1930s, in the context of the Modern Anonymous Company's emergence (BERLE; MEANS, 2010). This theme was popular in the years of 1990s and 2000s with the scandals involving Enron and WorldCom in United States of America (USA) and Ahold and Parmalat in Europe (MILLAR et al., 2005; BLAIR, 1995). In those years, issues of corporate governance dominated the business scenario, with the discussion about power and responsibility of boards of directors, rules of governing takeovers, role and influence of institutional investors, pay of chief executives officers (CEO) and institutional transparency in emerging markets (MILLAR et al., 2005; BLAIR, 1995).

In the following years the corporate governance became a central theme in the international business since it is considered as an environmental of trust, ethics, moral values and confidence in a synergic effort of all the constituent parts (the stakeholders) concerning with the organization actions and consequences of these actions (CROWTHER; SEIFI, 2011).

One of the important aspects about the actions and business decisions is directed related with the life cycle of the company and the decision about listing or delisting from the capital markets (BORTOLON; SILVA JUNIOR, 2015). According to Pagano; Panetta and Zingales (1998) and Burghof and Schilling (2003), in terms of the company's evolution, it was believed that the apex of an organisation's life cycle would be to become a public company with shares traded in the financial markets. In this case, to obtain access to financial markets, the company must decide to trade company stock through an Initial Public Offering (IPO),

that represent a rite of passage in the life cycle of a young and a successful company (BHARATH; DITTMAR, 2006) from preliminary to advanced stages of the life cycle.

As pointed by Hail and Leuz (2006), Easley; Hvidkjaer and O'Hara (2002), Leuz and Verrecchia (2000) and Basak and Cuoco (1998) the going public process imposes to the companies requirements of disclosure, but provides numerous benefits like higher liquidity of stocks, larger investor base, lower cost of capital and less information asymmetry. However, Leuz; Triantis and Wang (2008) indicate that in the USA the requirements imposed by the Securities Exchange Commission (SEC) may imply positive and negative effects to the public companies. When the effects are positive, the companies are stimulated to remain public, but when are negative the companies have two main possibilities: going dark or going private (LEUZ; TRIANTIS; WANG, 2008; MAROSI; MASSOUD, 2007; MILLER; FRANKENTHALER, 2003).

In the first case, the going dark companies deregister their securities from the capital market, but continue to trade stocks on over-the-counter (OTC) market. In the second case, the going private companies, that similarly to the going dark companies, deregister their securities from capital market and are no longer required to file with the SEC (LEUZ; TRIANTIS; WANG, 2008; MAROSI; MASSOUD, 2007).

So, it is observed in the capital market the presence of an opposite movement contradicting the perspective of company's evolution pointed by Pagano; Panetta and Zingales (1998) and Burghof and Schilling (2003) – the delisting of public companies, via going dark and going private processes (LEUZ; TRIANTIS; WANG, 2008). Considering the focus of the research project, this paper will concentrate the discussion on the going private process.

As Bharath and Dittmar (2006) and Michelsen and Klein (2010) reports in studies about going private process respectively in USA and Germany, the number of companies opting to delist has increased between the years of 1990s and 2000s. These findings contradict the linear interpretation of the organisational life cycle pointed by Burghof and Schilling (2003).

In order to illustrate the increase of the Public to Private Transactions (PTP) in the late 1990s and early 2000s in the USA, Boot; Gopalan and Thakor (2006; 2008) present some indicators showing that in 1999, 83 companies were delisted; in 2000, there were 86; in 2003, there were 262; and in 2004, there were 188. Those authors cite the primary reason for this phenomenon as the decline in the stock prices that occurred after 2000.

According to Bortolon and Silva Junior (2015), in the context of the Brazilian financial market, the presence of two phenomena are observed: listing and delisting. Figure 1 illustrates the movement of the capitalisation of financial resources derived from the movement of listing and delisting Brazilian companies on the Brazilian Securities, Commodities and Futures Exchange (Bolsa de Valores, Mercadorias e Futuros de São Paulo – BM&FBovespa). Data available from the World Federation of Exchanges (WFE) (2014) indicate that the capitalisation of resources derived from listing increased in 2007 and then went through a period of oscillation between decrease, increase and decrease again with respect to the amount of capitalised financial resources. In contrast, the data indicate that with respect to the capitalisation of resources derived from delisting, there was an increase in the amount of capitalised resources starting in 2007 and maintenance of this level in subsequent years until 2012. The data also reveal that over a thirteen-year period (2000-2012), there was an inverse movement in the process of listing and delisting: when there was an increase in listing, there was a simultaneous decrease in delisting and vice-versa (BORTOLON; SILVA JUNIOR, 2015).

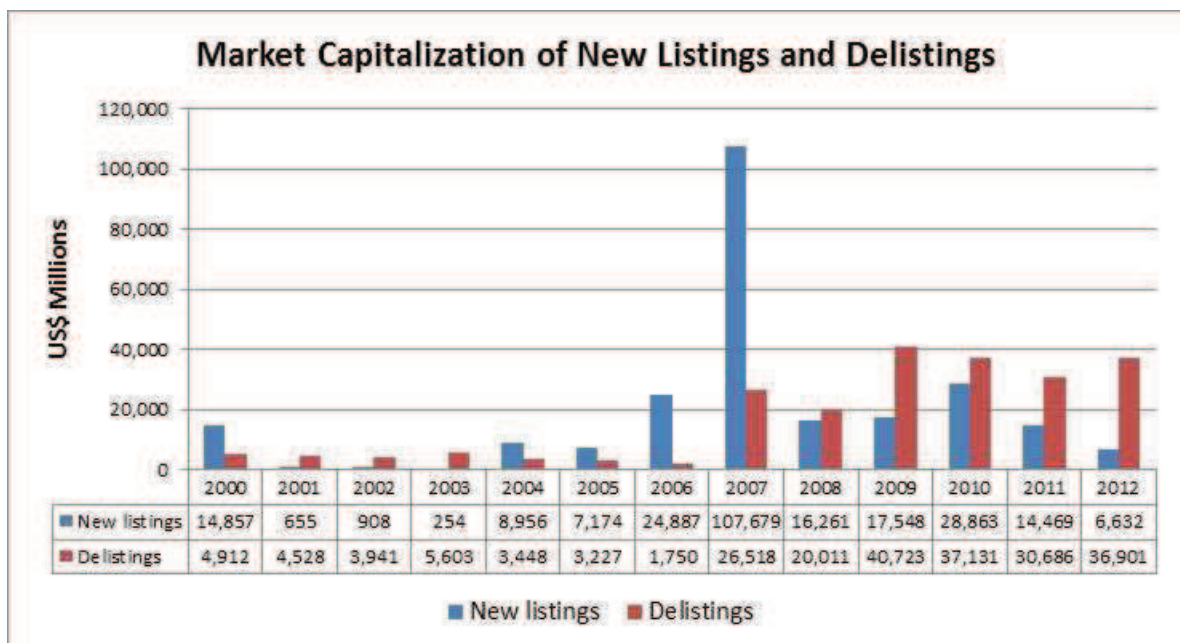


Figure 1 - Capitalisation of financial resources related to movements of listing and delisting Brazilian companies, 2000- 2012.

Source: World Federation of Exchanges (2014), withdrawn from Bortolon and Silva Junior (2015)

Based on these evidences observed on Brazilian capital market, this paper aims to investigate the relation of corporate governance and delisting on BM&FBovespa. In order to evaluate the corporate governance practices, it was used a corporate governance index (CGI). This index had been used in several studies in international capital market, including Brazilian

(TU; KHANH; QUYEN, 2014; CHEN, et al., 2007; LEAL; SILVA, 2005; SILVA; LEAL, 2005; SILVEIRA; BARROS; FAMÁ, 2004).

The CGI used in this research was developed based on the contributions of Leal and Silva (2005), Silva and Leal (2005) and Silveira; Barros and Famá (2004) in their studies about corporate governance in the Brazilian capital market. The index was composed of a set of 16 questions pooled in 4 broad dimensions that can be objectively answered from publicly available information. The dimensions were ownership structure, ethics and conflicts of interest, disclosure and board of directors.

In part, the option to investigate the relation between corporate governance and going private movement of public companies is grounded in two contextual aspects: (1) the empirical finding that the corporate scandals observed on the international scene in the years of 1990s and 2000s, such as the cases of WorldCom, Enron, Parmalat and others, have imposed a number of requirements on public companies that have increased the costs of fulfilling the four principles of corporate governance; and (2) the need to understand how corporate decision-making about delisting is performed in terms of corporate governance issues (BORTOLON; SILVA JUNIOR, 2015; ALIMEHMETI; PALETTA, 2014; LEUZ; TRIANTIS; WANG, 2008; MILLAR et al., 2005; TU; KHANH; QUYEN, 2014; CHEN, et al., 2007; LEAL; SILVA, 2005; SILVA; LEAL, 2005; SILVEIRA; BARROS; FAMÁ, 2004).

Based on the theoretical arguments and the empirical findings presented here, the following research question is formulated: **What are the corporate governance characteristics of delisting of Brazilian listed companies on the BM&FBovespa and how they affect the probability of delisting?**

In order to answer this research question, it was realized a quantitative study (TRIPODI; FELLIN; MEYER., 1983) that involves the collection of secondary data from the Securities Commission of Brazil (Comissão de Valores Mobiliários—CVM), the BM&FBovespa, Economática and Comdinheiro databases.

In addition to its introduction, this article is structured into four sections: (a) in the second section is presented the literature review involving corporate governance, CGI and delisting process; (b) in the third section, the methods for collecting and analysing data are addressed; (c) in the fourth section, the results are presented, discussed and analysed; and (d) in the fifth and final sections, the conclusions are presented.

2 LITERATURE REVIEW

In this chapter are presented the three main themes that grounded the procedures of data collections and analyses: corporate governance, corporate governance index (CGI) and delisting process of public companies.

2.1 CORPORATE GOVERNANCE

The concept of governance is as old as the existence of any kind of human organization. In essence, the concept refers to the means by which the organization conducts itself (CROWTHER; SEIFI, 2011). For Turnbull (1997) corporate governance describes all the influences affecting institutional process, including those for appointing the controllers and regulators, involved in organizing the production and sale of goods and services. In other words, the corporate governance phenomenon reaches all kind of organizations, being them publicly traded, privately held, profit or non profit (TURNBULL, 1997).

Adopting a broader view, however restrict to publicly traded companies, Blair (1995, p. 3) advocates that corporate governance “refers to the whole set of legal, cultural, and institutional arrangements that determine what publicly traded corporations can do, who controls them, how that control is exercised, and how the risk and returns from the activities they undertake are allocated”. Apart from the nature of the organization, Hart (1995) considers that corporate governance issues arise at the presence of two conditions: agency problem or conflict of interests among the stakeholders and the transactions cost derived from agency problem.

These different perspectives reveals that corporate governance discussion is fruitful and full of convergent and divergent positions among researchers. Considering the main purpose of this paper, the concept of corporate governance adopted here is from Blair (1995), because it involves the publicly companies and the decision about remain publicly or going private. Based on Berle and Means (2010), Blair (1995) present a corporate governance model that contemplate institutional investors in the context of the capital market (Figure 2).

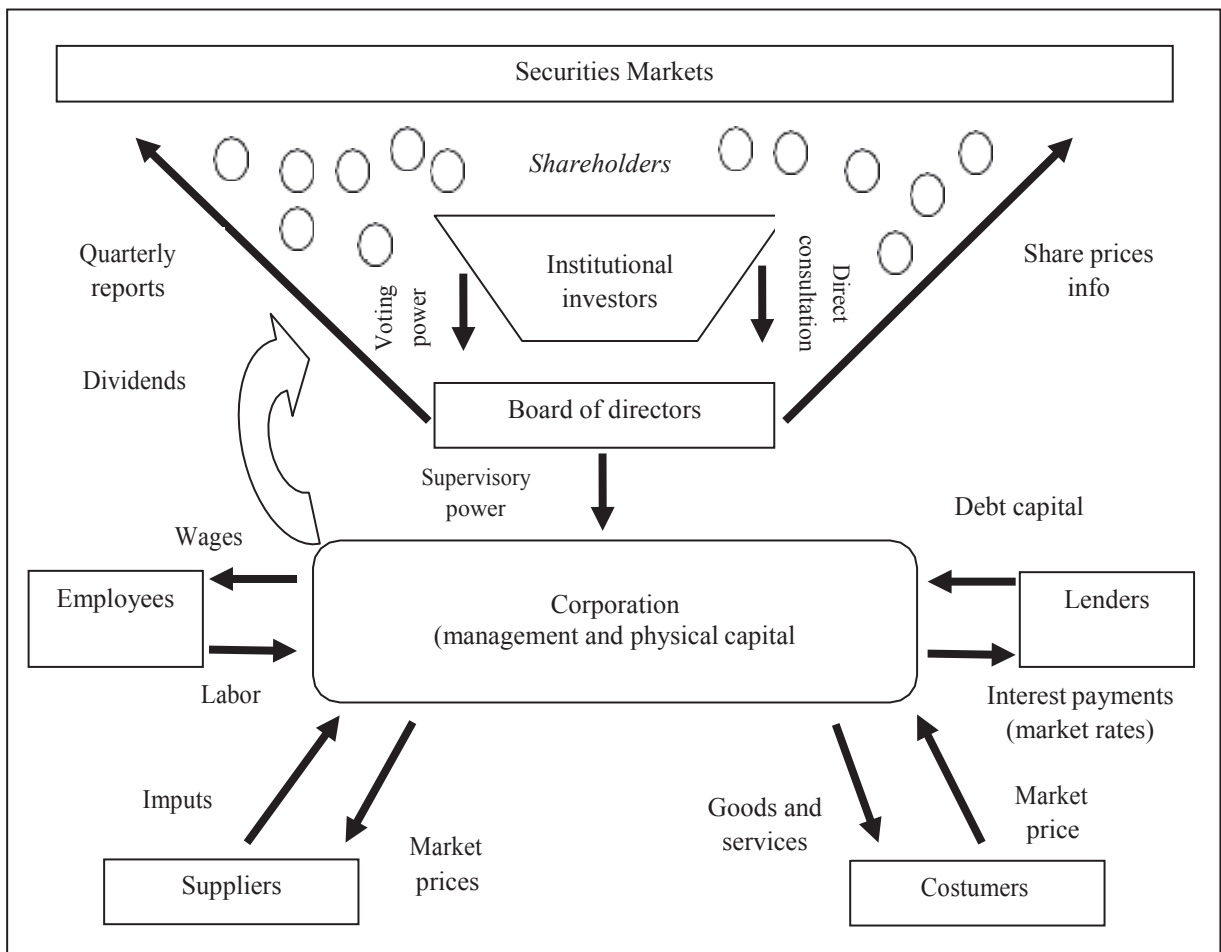


Figure 2 - Revised Berle and Means (2010) Model, with Institutional Investors.
Source: Blair (1995, p. 47).

According to the model (BLAIR, 1995) the organization is a legal device that gathers and organizes capital, labor and other resources to produce and trade goods and services. In its activities, the organization establishes a set of contracts (formal and informal) among the various participants (stakeholders) wherein each one contributes in some way and receives something in return. For example, employees contribute with their labor and receive remuneration in return; shareholders contribute with capital and receive dividends in return on invested capital; among others (BLAIR, 1995; HART, 1995b).

In the context of the capital market, publicly traded companies oriented by corporate governance mechanisms take management decisions about several issues, including about the delisting from capital market. In order to analyze this kind of decision, this research develop a CGI to investigate the corporate governance features that indicate the most likely to go private.

2.2 CORPORATE GOVERNANCE INDEX (CGI)

As Crowther and Seifi (2011) and Millar et al. (2005) emphasize, the corporate governance discussion became central in the international scenario due to the corporate scandals observed in the years of 1990s and 2000s. This situation has driven the attention of scholars and data providers on corporate governance issues and the relevance of evaluate its strength as there is the recognition that corporate governance decisions may affect substantially shareholders (BEBCHUK; COHEN; FERREL, 2009) and others stakeholders.

In order to evaluate the corporate governance several studies had been performed, many of them using the CGI as measurement mechanism (TU; KHANH; QUYEN, 2014; CHEN, et al., 2007; LEAL; SILVA, 2005; SILVA; LEAL, 2005; SILVEIRA; BARROS; FAMÁ, 2004). Despite the criticism of this form of measurement of corporate governance (ALIMEHMETI; PALETTA, 2014), the CGI seems to be effective in the evaluation of these practices.

Considering the focus of the research on the Brazilian capital market, the CGI developed here was based on the contributions of Leal and Silva (2005), Silva and Leal (2005) and Silveira; Barros and Famá (2004) in their studies about corporate governance in Brazil and He and Ho (2011) about their considerations of ethics and corporate governance. The index was composed of a set of 16 questions pooled in 4 broad dimensions that can be objectively answered form publicly available information. The dimensions were ownership structure, ethics and conflicts of interest, disclosure and board of directors, as is shown below in Table 1.

Dimension	Questions	Theoretical Foundation
Ownership structure	1 – does the major shareholder own less than 50% of voting shares?	Silva and Leal (2005)
	2 – is the percentage of non-voting shares in total capital less than 50%?	Silveira; Barros and Famá (2004)
	3 – is the major shareholder’s ratio of voting rights to cash flow rights lower or equal to 1?	Silva and Leal (2005)
	4 – is the free-float of total shares greater than or equal to what is required in Bovespa’s Level 1 trading list (25%)?	Silva and Leal (2005)
	5 – does the company grant tag-along rights beyond what is legally required (minority voting shareholders must receive 80% of the value payed to controlling shareholders)?	Leal and Silva (2005)

Ethics and conflicts of interest	1 – is the company free of any CVM convictions and/or fining for governance malpractices or other securities law violations in the last five years?	Leal and Silva (2005)
	2 – was the company inquired by CVM about abnormal stock prices variations or any other suspicious activities?	He and Ho (2011)
	3 – does the company charter establish arbitration to resolve corporate conflicts?	Silva and Leal (2005)
Disclosure	1 – does the company produce its legally required financial reports by the required date?	Leal and Silva (2005)
	2 – does the company use one of the leading global auditing firms (PWC, Arthur Andersen, KPMG, Ernst & Young, Deloitte)?	Leal and Silva (2005)
	3 – does the company disclose in its annual report compensation information for the CEO and board members?	Leal and Silva (2005)
	Obs.: since the disclosure of this information became an obligation after CVM Instruction n° 480, for delisting after 2010 the question considered was if the maximum, minimum and average remuneration of board and directory were disclosed.	
Board of directors	1 – are the Chairman of the Board and the CEO different persons?	Leal and Silva (2005) and Silveira; Barros and Famá (2004)
	2 – is the board clearly made up of outside and possibly independent directors?	Leal and Silva (2005) and Silveira; Barros and Famá (2004)
	3 – is the board size between 5 and 9 members?	Leal and Silva (2005) and Silveira; Barros and Famá (2004)
	4 – does the company have monitoring committees besides the board and fiscal board?	Leal and Silva (2005)
	5 – is there a permanent fiscal board?	Leal and Silva (2005)

Table 1 - Corporate Governance Index and Theoretical Foundation

Source: Research Project

The first dimension of the index, ownership structure aims to analyse the composition of the shares, concentration of voting shares, relation between voting rights and cash flow rights, free-float and tag-along. The ethics and conflicts of interest aims to investigate ethics issues relation to the external and internal control of the CVM and the company itself respectively. The disclosure dimension focus on the transparency of the company in terms of information reported to the market and the seal of global auditing firms at the reports. The last

dimension, board of directors aims to investigate the relation between ownership and management, composition, size, presence and relation with committees on the board (HE; HO, 2011; LEAL; SILVA, 2005; SILVA; LEAL, 2005; SILVEIRA; BARROS; FAMÁ, 2004).

2.3 DELISTING IN FINANCIAL MARKETS: THE GOING PRIVATE DECISION

Although studies on public companies predominate in discussions about corporate governance and financial markets, a number of studies on companies that have delisted are found in the literature (BORTOLON; SILVA JUNIOR, 2015; MICHELSEN; KLEIN, 2010; BOOT, GOPALAN; THAKOR, 2006; 2008; EID JUNIOR; HORNG, 2005; MILLER; FRANKENTHALER, 2003). One of the issues that have been the subject of reflection on the part of owners and managers of companies worldwide is related to the decision to go public by conducting IPO, the maintenance of a public company, or to go private through the process of delisting. Under this decision (opening or closing of the capital) some internal and external factors are presented to shareholders and managers.

Boot; Gopalan and Thakor (2008; 2006) advocates that in the IPO decision entrepreneurs evaluate a trade-off that has in one side the liquidity and the lowest cost of capital offered by the market and on the other, the less autonomy in conducting business. In this analysis, the market discounts ex-ante the ability of the manager to make decisions at odds with what investors believe to be best for the company, reducing the share price. Another factor affecting the decision is the level of corporate governance required by the market and regulation, determined for a median company and that can mean significant costs for smaller company. In this situation, it may be easier to seek more investors aligned with the entrepreneurial vision keeping the company privately held, with the governance level being a "private contract" between the parties, set both the possibilities and needs.

According to Miller and Frankenthaler (2003), in the USA context for example, economic instability in the capital markets and the stringent requirements imposed by the Sarbanes-Oxley Act (SOX) of 2002 forced public companies to assess the relationship between the cost and the benefit of remaining public. The cost of maintaining the public company registration has become a key issue, since the legal fees, accounting and other expenses related to record maintenance increased dramatically. In this sense, it is considered important that listed company evaluate two situations: (1) the costs involved in legal and institutional requirements; and (2) the advantages of remain public such as better access to capital for business expansion, the financing of diversification of operations, strengthening the

corporate image in the capital market and the availability of a wide range of incentives for administrators and employees.

Before proceeding with the discussion about the delisting, it is relevant, as advocates Leuz; Triantis and Wang (2008) and Miller and Frankenthaler (2003) to distinguish between three processes: "deregistration" (terminate the registration), go dark and "delisting" (go private). Deregistration consist in the process of terminate the registration of the shares traded on the stock exchange, thus suspending or terminating the company's public reporting obligations under the exchange act. There are a number of requirements that a company must meet to make the deregistration of their actions and stop their obligations to submit periodic reports to SEC (MILLER; FRANKENTHALER, 2003). In both cases, go dark and go private, the companies must deregister from stock exchange.

Going dark refers to the process of voluntarily deregister of a public company's shares from a national securities exchange but remain publicly traded over-the-counter (OTC) on the Pink Sheets. It is expected that going dark companies are smaller, have fewer growth opportunities, are more distressed and have poorer operating performance (LEUZ; TRIANTIS; WANG, 2008; MAROSI; MASSOUD, 2007).

Delisting or public to private transactions (PTP) or going private transaction commonly takes the form of an acquisition offer organized by a company's controlling stockholder or management and financed by sophisticated third party financiers. The purpose of delisting is to enable the company or the control group to acquire all or substantially all of the company's publicly-held shares in order to return the company to its pre-IPO condition – "private company" status. Delisting are much more complicated, time consuming and expensive than deregistration because the company is required to comply with complex SEC regulations regarding going private transactions. This kind of transaction involve restructuring that concentrates ownership and increases the level of company's debt (LEUZ; TRIANTIS; WANG, 2008; MILLER; FRANKENTHALER, 2003).

In Brazilian capital market, the delisting occurs through at least two macro modes: (1) regulatory, normalized by CVM Instruction n° 287/1998 involving the following main cases: company extinction, cancellation of the commercial registration and evidence of stoppage of the company's activities for a period exceeding three years, and its public company registration suspended for more than a year; and (2) Acquisition Public Offering (APO), normalized by CVM Instruction n° 361/2002 may assume these main forms: APO for deregistration, APO for increase the stock participation of the controller of the social capital

of the company, voluntary APO, and others. The second macro mode characterize a voluntary delisting and the first one an involuntary. This study focuses on the second one.

Thus, the voluntary delisting of public companies by the CVM can be granted only by carrying out specific APO for specific purposes. APO can be formulated by the controlling shareholder or the corporation itself, relating to all shares issued by it. Regardless of the APO mode, it is considered essential that the decision to promote the PTP should be preceded by careful assessment of the purposes and the trade-off of delisting (CAPITAL ABERTO, 2005).

3 METHODS

This is a quantitative study that is descriptive and analytical in nature (TRIPODI; FELLIN; MEYER., 1983) and that involves the collection of secondary data from the Securities Commission of Brazil (Comissão de Valores Mobiliários - CVM), the BM&FBovespa, Economática and Comdinheiro databases.

The population of the study was defined as all companies listed on the BM&FBovespa that delisted voluntarily through making a request to cancel their CVM registration during the five years between 2008 and 2012. As noted by Eid Junior and Horng (2005), non-voluntary cancellations are primarily caused by the deterioration of company outcomes. In these cases, it is also common to see companies default with the regulating body over a long period, which makes it difficult to obtain reports for analysis.

In this period, 100 cancellations of registration were observed. Thirteen “legal cancellations” and 1 cancellation due to “extinction of the company” were excluded from this study because they were involuntary, leaving a set of 86 cancellations to be analysed, thus constituting the study sample.

To analyse the data, a sample control group was defined, called “comparable”, consisting of listed companies in the same industry and of similar size as the delisted companies. To compose the control group, 81 “comparable” companies were identified.

The CGI were measured in the year of delisting both for the companies that were delisted and for those defined as “comparable”. The fifth year before delisting was also observed for delisted companies to evaluate the evolution of corporate governance practices prior to the decision of delisting.

The analytical approach and financial variables are presented next. For the financial variables mean values in the three years prior to cancellation of registration were observed to reduce the influence of momentary variations, thereby capturing the values that best reflect

the factor of analysis of interest. Companies in the control group also had their means observed in the same period as the similar company that delisted.

3.1 EMPIRICAL ANALYSIS AND ECONOMETRIC MODELS

In order to analyze how corporate governance affects the decision to delist, descriptive statistics, mean differences tests and logit models were employed. The main variable of interest was the Corporate Governance Index (CGI) and its four dimensions. The first part of the analysis, therefore, concentrates on the corporate governance practices identified by the CGI, observing the descriptive statistics of the index in the two groups (delisted and comparable companies), testing mean differences for statistical significance, and finally comparing those indices for the delisted companies five years prior to the delisting.

As better corporate governance practices, in general, imposes additional costs to the company (MILLER; FRANKENTHALER, 2003) it was expected that delisted companies had lower CGIs than comparable ones. The analysis of differences in the four dimensions of the index may show which aspects of corporate governance imposes greater distance to the companies that remained public.

How corporate governance affect the probability of delisting decision was analyzed through logit models suggested by Bortolon and Silva Junior (2015). So, the model in this research were modified to add the CGI index.

$$\begin{aligned} \text{Prob}(\text{Delisting}_i = 1) \\ = \alpha_i + \beta_1 \text{OwnershipStructure}_i + \beta_2 \text{Liquidity}_i + \beta_3 \text{Availability of cash}_i \\ + \beta_4 \text{Payment of dividends}_i + \beta_5 \text{Growth}_i + \beta_6 \text{Size}_i + \beta_7 \text{Leverage}_i + \beta_8 \text{CGI}_i \end{aligned} \quad (1)$$

Delisting is a binary variable that takes the value 1 if the company delisted its shares, and takes the value 0 if the company remained public. The variable are measured according Bortolon and Silva Junior (2015) and other authors, as briefly explained below.

Ownership structure was evaluated by the largest shareholder percentage of voting capital. According to Lawrence (1986) and Michelsen and Klein (2010) the approval of delisting is easier if the control is concentrated in the hands of few shareholders.

Liquidity of shares are measured by the expression $\text{Liquidity} = \frac{P}{P} \sqrt{\frac{n}{N} \times \frac{V}{V}}$, where, P, N and V are respectively the number of trading days, the total number of transactions and the financial volume traded in the stock exchange. The lower case letters express the same concepts for the observed stock. Liquidity of stocks is expected to affect negatively the

probability of delisting (WEIR; LAING; WRIGHT, 2005; MICHELSEN; KLEIN, 2010; POUR; LASFER, 2013).

Smaller companies are followed by fewer analysts receiving less attention from the market. It can result in lower liquidity increasing the attractiveness of delisting. This suggests a negative relation with the probability of delisting (BOOT; GOPALAN; THAKOR, 2008; MICHELSEN; KLEIN, 2010). However, size can be a proxy for mature companies with lower needs of capital to finance growth; in this case, the expected sign is positive. Size is evaluated through the logarithm of revenue.

Availability of cash is expected to affect positively the probability of delisting since it is expected that managers and controlling shareholders desire greater discretion over the cash (JENSEN, 1986; WEIR; LAING; WRIGHT, 2005). The variable defined in this research is the ratio between Ebitda and revenue.

The desire of more discretion are also the subject of dividend payments variable. Evaluated through the dividend yield, that is the ratio between the paid dividend and the share value, the sign expected is positive (JENSEN, 1986; WEIR; LAING; WRIGHT, 2005).

Mature companies have lower need of capital to finance growth. Lower growth rhythm means lower need to use the financial market as a source of capital, therefore, the relation with the probability of delisting is expected to be negative (BOOT; GOPALAN; THAKOR, 2008; MICHELSEN; KLEIN, 2010; KHAN; VILANOVA; HASSAIRI, 2011). The proxy used in this research for growth opportunities was the market to book ratio.

Companies with less debt are expected to be more prone to delist because of the potential to increase leverage and tax benefits if the company is profitable (POUR; LASFER, 2013; MICHELSEN; KLEIN, 2010). The leverage variable was the ratio between total liabilities and net equity.

Bortolon and Silva Junior (2015) found the expected signs (positive for voting concentration, ebitda/revenue and logarithm of revenue, and negative for liquidity of shares) mentioned above in their study of delisted companies in Brazilian Stock Exchange in the period of 2001 to 2012. However, payment of dividends, growth opportunities and leverage didn't show significant effect over the probability of delisting in their research.

This research adds to this body of knowledge the issue of corporate governance measured via a CGI (HE; HO, 2011; LEAL; SILVA, 2005; SILVA; LEAL, 2005; SILVEIRA; BARROS; FAMÁ, 2004). Delisting can be more attractive for those companies

that evaluate negatively the trade-off between the costs and benefits of adopting better practices. So, the CGI index is expected to affect negatively the probability of delisting (BORTOLON; SILVA JUNIOR, 2015; POUR; LASFER, 2013; BOOT; GOPALAN; THAKOR, 2008; MICHELSEN; KLEIN, 2010; CHARITOU; LOUCA; VAFEAS, 2007; BHARATH; DITTMAR, 2006; WEIR; LAING; WRIGHT, 2005).

4 PRESENTATION, DISCUSSION AND ANALYSIS OF RESULTS

The descriptive statistics of CGI are presented in Table 2. The maximum value possible for the CGI is 16 and the minimum 0. In the comparable group two companies achieved 16 points. The maximum in the group of companies that delisted was 13 observed in 8 companies. Except for the disclosure issues of the index, the CGI and the other sub-indexes had higher means for the comparable group of companies.

Table 2 - Descriptive Statistics of Corporate Governance Index of Companies that Delisted and their Comparables

Index	Companies	Count	Mean	Max	Min	Median	Std
Corp. Gov. Index	Delisted	86	9.19	13	5	9	2.12
	Comparable	81	10.23	16	4	10	2.99
Own. Struc. Questions	Delisted	86	1.84	5	0	2	1.30
	Comparable	81	2.81	5	0	3	1.64
Ethics questions	Delisted	86	1.99	3	0	2	0.76
	Comparable	81	2.05	3	0	2	0.75
Disclosure questions	Delisted	86	2.47	3	1	3	0.59
	Comparable	81	2.37	3	1	2	0.66
Board questions	Delisted	85	2.91	5	0	3	1.22
	Comparable	81	3.00	5	0	3	1.08

Source: Research data.

The differences of means observed in Table 2 were tested for statistical significance through t tests. The results are presented in Table 3. The mean differences for the CGI index are statistically significant at 1% level being higher for the group of companies that remained public. However, when observed the four dimensions of the index the tests show significant differences only in the group of issues related to ownership structure. The corporate governance practices related to ethics, disclosure and board of directors have not presented differences statistically significant.

Probably these evidences can be explained by the Brazilian capital market characteristics such as poorly developed and concentration of shareholder control (SARLO NETO, et al., 2005; NÓBREGA, et al. 2000). These results suggest that the main factor of influence on corporate decisions is related to the ownership and control concentration, mainly in terms of the decision about remain publicly or go private.

Table 3 - Corporate Governance Index and Sub-Index Means Comparison Tests in The Year of Delisting

	Means				T statistic
	Delisted		Comparable		
	Count	Mean	Count	Mean	
Corp. Gov. Index	86	9.19	81	10.23	2.623 ***
Own. Struc. Questions	86	1.84	81	2.81	4.275 ***
Ethic questions	86	1.99	81	2.05	0.520
Disclosure questions	86	2.47	81	2.37	-1.100
Board questions	85	2.91	81	3.00	0.524

Obs.: *, **, *** indicates statistical significance at 10%, 5% and 1% respectively.
Source: Research data.

In order to observe inside the score of ownership structure the two samples were analyzed in each of the five questions. The proportion of companies that attend the requisite in the two groups were observed and tested for statistical significance. The results in Table 4 show that the proportion of non-voting shares and the voting to cash flow rights mismatch are not so different between the two groups. They are really different when observed the free-float, with only 15.12% of delisted companies granting the minimum of 25% demanded by the Level 1¹ listing segment of BM&FBovespa, while the comparable group had more than half of companies with positive answer to this issue. The concentration of control is higher in the delisted group. The first issue shows that only 11.63% of delisted companies have the major shareholder owning less than 50% of voting shares. Brazilian companies are characterized by the ownership and control concentration (LEAL; SILVA; VALADARES, 2002; SILVA; LEAL, 2006; ALDRIGHI; MAZZER NETO, 2007) and so, the comparable

¹ In 2001 BMF&Bovespa created special listing segments with different demands for corporate governance practices. Companies adhere voluntarily through private contracts with the stock exchange. Level 1 is the less demanding segment. For more details access <http://www.bmfbovespa.com.br/en-us/markets/equities/companies/corporate-governance.aspx?Idioma=en-us>.

group also presents a high percentage (45.68%) of largest shareholder with controlling stakes in the company. The desire for more control is reflected in the issue about tag-along rights. Only 31.40% of delisted companies grant tag-along beyond what is legally required, while 50.62% of companies that remained public do.

Table 4 - Ownership Structure Questions and Proportions Differences Between Delisted and Comparables

Question	Proportions		Z statistic
	Delisted	Comparable	
Does the major shareholder own less than 50% of voting shares?	11.63%	45.68%	4.890 ***
Is the percentage of non-voting shares in total capital less than 50%?	63.95%	74.07%	1.411
Is the major shareholder's ratio of voting rights to cash flow rights lower or equal to 1?	61.63%	54.32%	-0.956
Is the free-float of total shares greater than or equal to what is required in Bovespa's Level 1 trading list (25%)?	15.12%	56.79%	5.631 ***
Does the company grant tag-along rights beyond what is legally required?	31.40%	50.62%	2.527 **

Obs.: *, **, *** indicates statistical significance at 10%, 5% and 1% respectively.

Source: Research data.

So it can be inferred that inside the ownership structure dimension three main issues are fundamental to the analysis of trade-off of remain publicly or go private: concentration of voting shares, free-float and tag-along. Data reveals that higher concentration of voting shares, lower free-float of total shares and slightest concession of tag-along rights is more evident in companies that voluntarily go private. These results are convergent to the findings of Bortolon and Silva Junior (2015), Michelsen and Klein (2010), Leal and Silva (2005) and Silva and Leal (2005).

The decision to delist is not a minor issue in the life cycle of a company. Managers and shareholders probably evaluate this alternative for a long time before taking the decision. In this process, corporate governance practices can evolve positively or negatively (LEUZ; TRIANTIS; WANG, 2008; MAROSI; MASSOUD, 2007; MILLER; FRANKENTHALER, 2003). In order to observe this evolution the CGI was answered for the companies that delisted in fifth year before the event. Table 5 shows the mean differences for the CGI and its dimensions.

Table 5 - Corporate Governance Index and Sub-Index Means Comparison Tests for the Same Delisted Companies in the Delisting Year and Five Years Before

	Means				T statistic
	Delisting Year		5 years before		
	Count	Mean	Count	Mean	
Corp. Gov. Index	57	8.51	57	8.53	-0.068
Own. Struc. Questions	57	1.37	57	1.68	-2.297 **
Etic questions	57	1.77	57	1.75	0.444
Disclosure questions	65	2.45	65	2.45	0.000
Board questions	63	2.90	63	2.49	2.934 ***

Obs.: *, **, *** indicates statistical significance at 10%, 5% and 1% respectively.

Source: Research data.

The broad index doesn't show statistical significant differences, however, in ownership structures and board of director issues differences are significant. Board of director issues seems to improve positively with the score increasing from 2.49 to 2.90 in the five years preceding the delisting. Ownership structure issues evolves in the opposite direction, with the score decreasing from 1.68 to 1.37 in the period observed.

To understand which specific aspects of ownership structure and board of director issues are different, these dimensions were evaluated issue by issue observing the proportion of companies that fulfill the requirement of good practice expressed in the question. The results in Table 6 show that the proportion of companies that have other committees than the board of director and fiscal board, and the proportion of companies that adopt the fiscal board in a permanent way increased. These results seem unexpected since they can influence costs in a company that is supposed to consider the delisting option. Maybe these course of action are in the direction of giving the minority shareholders and market in general greater transparency in a moment when the option to delist must be discussed and approved in shareholders assembly.

Table 6 - Ownership Structure and Board of Directors Questions and Proportions Differences Between Delisting Year and Five Years Before for the Same Companies

Question	Proportions		Z statistic
	Delisting Year	Five years before	
<i>Ownership structure questions</i>			
Does the major shareholder own less than 50% of voting shares?	11.63%	20.27%	-1.501
Is the percentage of non-voting shares in total capital less than 50%?	63.95%	46.87%	2.087 **
Is the major shareholder's ratio of voting rights to cash flow rights lower or equal to 1?	61.63%	48.65%	1.647 *
Is the free-float of total shares greater than or equal to what is required in Bovespa's Level 1 trading list (25%)?	15.11%	42.65%	-3.809 ***
Does the company grant tag-along rights beyond what is legally required?	31.40%	15.79%	2.105 **
<i>Board questions</i>			
Are the chairman of the board and the CEO different persons?	72.09%	64.06%	1.049
Is the board clearly made up of outside an possibly independent directors?	94.12%	93.75%	0.093
Is the board size between 5 and 9 members?	62.35%	65.63%	-0.411
Does the company have monitoring committees besides the board and fiscal board?	31.40%	10.94%	2.960 ***
Is there a permanent fiscal board?	30.23%	14.06%	2.316 **

Obs.: *, **, *** indicates statistical significance at 10%, 5% and 1% respectively.

Source: Research data.

Although the ownership structure mean score decreases in the five years prior the delisting, some of the issues inside the sub-index show a positive evolution. The percentages of companies that (i) have less than 50% of total capital in non-voting shares; (ii) have the major shareholder with rights mismatch lower or equal to 1 and (iii) grant tag-along rights beyond what is legally required increased from the fifth year before to the year of delisting. The free-float, however, shows that the percentage of companies that delisted that maintains at least 25% of shares in the market diminished from 42.65% to 15.11% in the period. This evolution is consistent with the decrease in the percentage of companies with major shareholder that owns less than 50% of the voting shares, although this decrease is not statistically significant. Major shareholder probably buy more shares in order to facilitate the approval of the delisting operation.

These results indicate that while the ownership structure dimension moved in direction to the higher concentration from 5 years before to the delisting year; the board of director dimension moved in direction to the higher independence. In this case, it can be observed a coherence and a contradiction. Coherence related to the ownership structure dimension once the results are convergent with the literature that advocates that the higher the concentration of ownership, the greater the probability of delisting (BORTOLON; SILVA JUNIOR, 2015;

MICHELSEN; KLEIN, 2010) and contradiction related to the board of directors dimension as it was expected that in delisting companies group the independence and effectiveness of the board decrease along the years because the independent board may not be favorable to the going private decision (CHARITOU; LOUCA; VAFEAS, 2007).

A possible explanation for this contradiction can be related to the corporate discourse of independence of the board of directors reflected in management reports and information available to the CVM and BM&FBovespa. However, this discourse does not materialize in practice, since the concentration of ownership, typically observed in Brazilian companies, implies overlap between the ownership and the management (ANDRADE; ROSSETTI, 2009), featuring this result as evidence of the presence of formalism (RIGGS, 1964; 1968).

The last part of the analysis focus on the effects of corporate governance practices in the probability of delisting, as evaluated by Bortolon and Silva Junior (2015). Table 7 presents the results of logit models.

Table 7 - Logit Models

Variable	Model 1	Model 2	Model 3	Model 4
Corporate Governance Index	-0.158** (0.062)			-0.079 (0.086)
Ownership structure		-0.581*** (0.137)		
Ethic and conflicts of interests		0.444* (0.262)		
Disclosure		0.419 (0.281)		
Board		-0.053 (0.148)		
Largest shareholder - % vote			0.030*** (0.008)	0.026*** (0.009)
Liquidity			-0.103 (0.582)	0.104 (0.566)
Ebitda/Revenue			-0.033 (0.127)	-0.058 (0.132)
Dividend Yield			-0.039 (0.046)	-0.046 (0.046)
Market to book			0.012 (0.022)	0.014 (0.025)
Logarithm of revenue			-0.002 (0.053)	0.017 (0.057)
Total liabilities / Equity			0.039 (0.066)	0.041 (0.068)
Constant	1.592 (0.623)	-0.364 (0.809)	-1.880* (0.968)	-1.199 (1.217)
# obs.	167	166	119	119
LR chi2	6.79	23.47	19.79	20.62
Prob > chi2	0.0091	0.0001	0.0061	0.0082
Pseudo R2	0.0294	0.1021	0.1202	0,1253

Source: Research data.

Model 1 shows that the CGI affects negatively the probability of a company delist. When considering delisting, managers and shareholders must evaluate the trade-off between the costs and benefits of fulfilling the demands of a public company. If delisting occurred the conclusion was that costs were higher than benefits and improving corporate governance would not be worth (BORTOLON; SILVA JUNIOR, 2015; POUR; LASFER, 2013; BOOT; GOPALAN; THAKOR, 2008; MICHELSEN; KLEIN, 2010; CHARITOU; LOUCA; VAFEAS, 2007; BHARATH; DITTMAR, 2006; WEIR; LAING; WRIGHT, 2005).

The model with the dimensions shows that the ownership structure issues are the ones most related to the probability of delisting. With negative sign, the results suggest that better practices related to ownership structure diminish the probability of delisting (LAWRENCE, 1986; MICHELSEN; KLEIN, 2010).

Model 3 shows that the higher the voting share of the largest shareholder more likely is the delisting operation. This result is in accordance to Bortolon and Silva Junior (2015), Eid Junior and Hornig (2005), Michelsen and Klein (2011). Contrary to Bortolon and Silva Junior (2015) liquidity, ebitda/revenue and logarithm of revenue did not show statistically significant effects here.

The last model adds CGI to the set of explanatory variables. The explanatory power (pseudo R²) increases marginally and the CGI does not show statistical significant effect over the probability of delisting. CGI and largest shareholder voting shares presented a correlation coefficient of -0.45 what helps explain the absence of significant effect in the first one.

Therefore, when observed apart from the control variables suggested in prior studies, corporate governance show significant effect over the decision to delist. However, when added to the model its effect is not significant.

5 CONCLUSIONS

The main purpose of this paper was to investigate the relation of corporate governance and delisting on BM&FBovespa. To reach this goal this study investigates a sample of 86 voluntary delisting operations between 2008 and 2012 and a matching sample with companies that remained public, identified as “comparable”.

Based on contributions of He and Ho (2011), Leal and Silva (2005), Silva and Leal (2005) and Silveira; Barros and Famá (2004) it was developed a CGI comprising four dimensions (ownership structure, ethics and conflicts of interest, disclosure and board of directors) and a set of 16 questions used to analyse the two groups. All dimensions of

corporate governance were developed based on the theory of ownership, agency and finance (BLAIR, 1995; HART, 1995; PAGANO; ROELL, 1998; JENSEN; MECKLING, 1976; MAURY; PAJUSTE, 2011) and on the positive approach to account phenomena (WATTS; ZIMMERMAN, 1986).

The central conclusion of the study is: based on the broad index, in Brazilian capital market, corporate governance practices are different between delisted companies and their comparables, and CGI affects negatively the probability of companies to go private. In other terms, the more advanced is the corporate governance practices the less probability is to the Brazilian company to go private or to delist from BM&FBovespa.

However, when it was analysed separately the dimensions of the CGI, it can be observed that ethics and conflicts of interest, disclosure and board of directors dimensions didn't show statistical significant differences between the two groups. It was observed only a significant difference between the two groups on ownership structure dimension.

The evolution prior to the delisting decision shows negative signs when observed the ownership structure dimension and positive evolution in board of directors issues. In these case, it can be observed a coherence in terms of the ownership structure dimension because the results are convergent with the literature; and a contraction in terms of the board of directors that can be explained by the presence of the formalism on the company's management (RIGGS, 1964; 1968).

Despite the mean differences in the groups, the results indicate that corporate governance doesn't seem to impact significantly the chances to delist in a model with ownership structure and financial variables. Probably the characteristics of Brazilian capital market pointed by Sarlo Neto, et al. (2005) and Nóbrega, et al. (2000) and the characteristics of Brazilian companies (LEAL; SILVA; VALADARES, 2002; SILVA; LEAL, 2006; ALDRIGHI; MAZZER NETO, 2007; ANDRADE; ROSSETTI, 2009) may indicate some clues to interpret these results.

Brazilian companies typically characterized by ownership and control concentration and overlap between ownership and management, operating in a small and poorly developed market, may indicate that company internal forces has more influence to the corporate decision than external forces. The analysis of external factors may influence the decision of going private and constitutes a limitation of this research.

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