

# Going private transactions performance in emerging economies:

## a comparative study in Latin America and Asia \*

**Alain CHEVALIER<sup>1</sup>**

ESCP Europe

**Aurélie SANNAJUST<sup>23</sup>**

University of Saint Etienne

COACTIS EA 4161

**Abstract:** We extend our worldwide research on private equity by studying the drivers of going private operating performance in emerging countries (Asia and Latin America). We select a large set of candidate drivers (financial, governance, macroeconomics, microeconomics, institutional variables) and we analyze their effects on performance over the short and long-terms. To conduct our study, we use Capital IQ, Thomson One Banker, World Bank as databases. We contribute to the current literature by doing an investigation of the impact of macroeconomics factors and institutional drivers (political stability, rule of law and regulatory quality) on the buyout performance. Positive and significance results are obtained. We use a sample of 248 going private transactions, which occurred between 2000 and 2011. Our results show that GDP growth and political stability are important drivers that significantly contribute to generate performance in going private.

**Keywords:** emerging countries, going private, delisting, drivers, institutional drivers, macroeconomics variables.

**JEL Classification:** G24, G34

---

\* We are grateful for helpful comments and suggestions from ENTFIN Lyon 2016, Emerging Trends in Entrepreneurial Finance Conference 2017 and ICGS Conference 2017.

<sup>1</sup> Professor–Finance Department-ESCP Europe, 79 Avenue de la République, 75 553 PARIS Cedex 11, + 33 149232071, [chevalier@escpeurope.eu](mailto:chevalier@escpeurope.eu)

<sup>2</sup> Associate Professor-Finance Department, Univ Lyon, UJM-Saint-Etienne, COACTIS, EA 4161, Rue Tréfilerie, 42023, SAINT-ETIENNE, France, +33675928950, [aurelie.sannajust@univ-st-etienne.fr](mailto:aurelie.sannajust@univ-st-etienne.fr)

<sup>3</sup> Corresponding author

## **Biography:**

**Alain Chevalier** is full a Professor of Finance and a former Dean at ESCP Europe. He holds a PhD in economics and a PhD in Management. He also received a graduate degree from ESSEC and IHEDN. He was one of the founder of the French Finance Association (AFFI) and a former President of EIBA (European International Business Academy).

He created and taught a large number of courses and academic programs in French, English and Spanish in France, Europe but also in the US, Canada, Latin America and Africa. He managed research projects for several international institutions and published a large number of academic and professional articles and books.

He is also a consultant on complex investment projects, financial engineering and restructuration of companies and debts for banks, large corporations and governments. He also was a Bologna expert for the EU and a BSN/Danone Finance Professor when he was the Director of the Finance Chair at ESCP Europe.

**Aurélien Sannajust** is Associate Professor of Corporate Finance at the University of Saint-Etienne since 2010. She holds a PhD in Management from the University of Clermont-Ferrand and an HDR (PhD supervisor) from the University of Dijon and has teaching affiliations with EMLyon Business School, the University of Paris-Dauphine and the University of Clermont-Ferrand. Her major fields of research are Entrepreneurial Finance, Private Equity, Crowdfunding and Blockchain. She published in different international academic reviews. She wrote a book on Crowdfunding.

## 1. Introduction

Some recent studies suggest that industry measures of growth and performance more accurately reflect the fundamentals driving buyout performance, Guo and al. (2011). In addition, the growth rates of individual industries are monitored much less than GDP, and, as a result, industry growth forecasts are likely to be less efficiently priced in transactions than GDP growth forecasts. So, industry growth rates should have a positive impact on buyout performance in addition to the impact of GDP growth rates.

Although many studies focus on going private transactions<sup>4</sup> in developed economies, a lower number analyze post-going private transactions performance in emerging economies. From Arnold & Quelch (1998) an emerging economy can be defined as a country that satisfies two criteria: a rapid pace of economic development and government policies favoring economic liberalization and the adoption of a free-market system. The International Finance Corporation identifies 51 rapid-growth developing countries in Asia, Latin America, Africa and the Middle East as emerging countries. Private Equity industry has expanded its traditional markets to emerging markets such as Russia, India, China and Latin America (De Beule & Duanmu (2012); Fortanier & Van Tulder (2009); Gompers and Lerner (1998, 2000); Sun, Peng, Ren and Yan, (2012)).

The main problem that we met is to obtain data from emerging countries. This paper overcomes the lack of financial data by instead relying on corporate governance, institutional and macroeconomics data using Capital IQ, Thomson One Banker, World Bank and the Quality of Government (Rothstein, Samanni & Teorell, 2011) databases. We focus our study on two main continents, Asia and Latin America. These two geographical areas present an important place of Private Equity. Since the subprime crisis, it has shown a solid transactional activity and a more favorable market for exits. The two essential characteristics during this time period are the levels achieved in the field of fundraising and a very strong growth each year. There are more and more investment opportunities and new frontier to explore. From Sannajust, Arouri & Chevalier (2015), these last years, a real growth of this phenomenon has been observed in Brazil and other Latin American countries thanks to improvements in the institutional framework.

---

<sup>4</sup> From Renneboog and Simons (2008) all PtoP transactions are financed by borrowing substantially beyond the industry average and are thus leveraged buyouts (LBO). In this article, we employ different synonyms for a going private transactions as PtoP or LBO.

We are able for the first time to study the impact of macroeconomics factors to the performance of going private transactions. As explained by Koller and al. (2005), a company's valuation is directly affected by expectations of its future economic performance. We begin our analysis by studying changes in operating performance around going private transactions (year-1 to year +3). Using the macroeconomic data, we find evidence that performance of going private transactions is affected by the economic environment (GDP, industry growth, interest rate ...). GDP and industry growth impact positively going private transactions performance. Wilken (1979) argues that economic development facilitates entrepreneurship, as it provides a greater accumulation of capital for investments. Romain and van Pottelsberghe de la Potterie (2004) find that PE activity is related to GDP growth. Interest rate impacts negatively the level of performance. More interest rates are low more the net financial debt is interesting. ROA and the variation of ROA between year -1 and year +3 is the main ratio in our study to evaluate the performance of LBO. We have significant and positive impact. Latin America results are a little bit less significant as those for Asia because growth supports some fluctuations due to oil and corruption problems. The second time, we focus our study to corporate governance impact to the performance of going private transactions. We find also that going private transactions solve the problem of agency costs (level of Free Cash Flow, level of leverage, level of debt to equity ...). All these variables confirm it positively and significantly. Agency problems are more present in Latin America. It would be explained by the fact that in Latin America, firms have bigger size than in Asia and more dispersed contrary to Asia where we have more family and small firms. The transaction costs are little bit less important than in Latin America where firms are bigger and management are more dispersed. The third and last time, we control if an institutional environment can affect the level of going private transactions performance. We observe that a political stability, a good hold to the rule of law and a regulatory quality from the Global Peace Index from the University of Sherbrook, have a significant impact to LBOs performance.

To improve our operational performance study post- going private transactions, we create a control sample. It confirms our previous results that agency problems are solved with going private transactions, the level of performance is positively correlated to a good economic environment and with a stable institutional environment.

We observe that in Asia the ownership is dominated by the presence of governance (Pessarossi & Weil, 2013). To investigate this problem, we split our Asia sample in three parts where each represents a sub-region. We control the presence of local and central state owned. We find that the presence of state has a negative impact to the performance of going private transactions (creation of asymmetric problem, less independence ...; Firth et al., 2009; Lin et al., 2009; Chen et Al Najjar, 2012) and we see that this impact is not the same if going private transactions are in a big sub-region where big cities are implanted. A good economic environment (synergy effect of a big city as dynamic with competition ...) influences positively the level of going private transactions performance even if central state is active. Results in these sub regions are more significant as the others.

Our paper proposes these empirical improvements and offers a possible resolution of the drivers of operating performance in emerging economies. We propose a new and integrative theoretical framework based on a study of macroeconomics drivers, added to corporate governance factors to determine creation value for going private transactions.

This study tests several hypotheses using a longitudinal data of a sample of 248 going private transactions from 2000 to 2011 a time period when we can study the performance of going private transactions 3 years after.

Several contributions to the drivers of going private transactions operating performance in emerging economies particularly in Latin America and Asia are offered in this study. First we provide further evidence of the importance of political and institutional study of going private transactions for its performance results, particular the rule of law and regulatory quality. Our study is consistent with a growing stream of research that explicitly recognizes that performance of going private transactions depends not only with governance factors (Cumming et al., 2010). This article aims to extend that macroeconomics, political and institutional drivers are significant. This paper contributes to theory by extending the going private transactions performance view of emerging economies to examine other drivers that affect significantly the performance of going private transactions.

## **2. Theory and hypotheses**

We present our literature review with different points of view: macroeconomics factors, microeconomics factors and political/institutional factors.

Two main studies illustrate the relationship between Private Equity and Performance. In a Venture Capital context, Gompers and Lerner (1998), highlight aggregate performance and capital flows. They find that macroeconomic factors (past industry performance, economic performance, evolution of capital gains tax, ERISA provisions) are the source of an increase of capital flows into private equity.

Gompers and Lerner (2000) present that the valuation of individual deals is affected by macroeconomics conditions and the degree of competition in the VC industry.

### **2.1 Macroeconomics factors**

Some studies focus their researches on Private Equity activity, emerging markets. Gompers and Lerner (1998) examine aggregate performance and capital flows in a Venture Capital environment. They confirm the relation between macroeconomic factors and the increase of capital flows into private equity. Kaplan and Schoar (2005) find a positive and significant relation between Private Equity activity and stock market cycles. Guo et al (2011) confirm that the level of growth, the level of sector's growth and the level of returns influence the LBO's performance. Cumming and Macintosh (2006), Armour and Cumming (2006), Gompers and Lerner (1999) confirm that expected economic growth enforces Private Equity activity because a lot of investment opportunities appear in economies with high growth prospects. From Gatauwa and Mwithiga (2014), "private equity seems to have a positive relationship with economic growth of a country or region".

Interest rates could also affect the level of going private transactions performance. If interest rates decrease, the attractiveness of borrowing for going private transactions will be more important.

### **2.1.1. Industry growth**

By country-specific advantages we speak about macroeconomics ratios from Asia and Latin America. In Asia, we remark a more stable and important level of growth than in Latin America. From the World Bank data, in Asia the growth is continually increasing while in Latin America the growth meets some declines as late 90's, early 2000. From 2000 to 2011, in Asia we take one main country which is the most representative: China, where the growth of GDP is equal to 12,46% with a 1,74 of standard deviation. In Latin America, we take two main countries which are the most representative: Brazil with a decrease of the growth of GDP equal to 4,87% and in Mexico a decrease of growth of GDP of 23,58% with a respectively standard deviation equals to 2,19 and 2,95.

The main indicator to measure the evolution of the economy growth is the GDP. It adds all the added value from goods and services produced by the country from firms, public authorities, associations and consumers.

The evolution of GDP in Asia is divided into two parts, first a real increase between 2000 to 2011 with a pick of 14,2% in 2007. In Latin America, it is not the same report as in Asia. The evolution of the growth is unstable. Most of the main countries in Latin America (Brazil, Argentine, Mexico) have a positive and negative percentage results of GDP growth from 2000 to 2011. We can make predictions from Latin America, for example in Mexico we have 5,3% of GDP growth in 2000 and -0,6% in 2001 ... We expect that industry growth rates have an impact to the going private transactions firm performance.

H1a: Going private transactions performance is positively associated with industry growth rates.

### **2.1.2. Unemployment rate**

From the World Bank database, we obtain the level of unemployment rate for the two countries since 1960. In general we have a decrease of the level of unemployment and a little more in Latin America.

From economics theories (Classical, Keynesian ...), there are three types of unemployment: unemployment from a lack of demand, structural unemployment and frictional

unemployment. However, in emerging countries, another type of unemployment appears from socialist state, « a Disguised Planified Unemployment ». We take an example with China where it undergoes a double transition: first the transition from the emerging country to a developed country and the second from the socialist economy to the market economy. Consequently, there are two main sources of unemployment and under-employment (Nakagane, Michelon; 1999): from the development process and from the transition process. What's more, the job market in China is very structured. It is divided into the rural and the urban sector. In the urban sector, two parts are separated: first the formal and second the informal. In the formal part, there is a division between the state sector and the no-state sector and in the informal division there is the rural and the urban workforce. The main characteristic of the job market in China is the relative decline of the state sector as well as the expansion of the no-state sector as the market economy is in place. The consequence of the China's transition is the creation of a two-track system ("shuangguizhi") where there is on the one hand a market economy which coexists with a planned economy and on the other hand the state sector coexists with the no-state sector. This situation leads to the creation of a double unemployment, one visible on the market and the other invisible in the planned economy and the state sector.

From a report of Economic Development Division of the Economic Commission for Latin America and the Caribbean (ECLAC) and the Office for the Southern Cone of Latin America of the International Labor Organization (ILO) in 2016 about the employment situation In Latin America and the Caribbean, the evolution of unemployment decreases since 2005. More precisely, in 7 of 19 countries there is an increase, in 9 of 19 countries a decrease and the other three a stable evolution. We always observe a disparity between regional and urban indicators even if there is an improvement job quality and quantity in regional areas.

Fehn, Fuchs (2003) show that the level of Venture Capital influences the level of unemployment.

The main impact of the unemployment is the consumption and the economy of the state with a decrease of the two levels. Therefore, firms are lower profits by a lack of consumption. We expect that level of unemployment rate has an impact to the going private transactions performance.



H1b: Going private transactions performance is positively associated with a low level of unemployment rate.

### **2.1.3. Inflation**

Malik & Dhankar (2017) present the interrelationships between Private Equity, financial stability and economic growth in India. They find that Private Equity has a positive impact on macroeconomic factors.

From the World Bank database, we observe the evolution of inflation since 1960. We confirm for the two countries a decrease. For example, In China, inflation continues to decline while in Latin America we have a little increase.

Cyclical policy against a high level of inflation is important to have an increase of GDP growth and on the growth of firm's performance. We expect that a low level of inflation has a positive impact of buyout performance. For the two areas Asia and Latin America, the level of inflation is stable and sometimes it decreases between 2000 and 2011. We expect that inflation rate has an impact to the going private transactions performance.

H1c: Going private transactions performance is positively associated with a low level of inflation.

[Insert Figure 1]

## **2.2. Microeconomics factors**

Agency theory implies a separation between ownership and control identified by Berle and Means (1932). It appears a governance deficit (Tirole, 2001). This is caused by the separation of ownership by the investors and by the management, in publicly listed corporations. What's more the agency problem is more important when ownership is widely dispersed due to the inability and/or the unwillingness of relatively small shareholders to check the behavior of the management.

### **2.2.1. Free Cash Flow**

Authors argue that for pre-LBO, agency costs are incurred because free cash-flows are spent on projects that do not generate the required positive net present value, Jensen (1986b). These firms will exhibit low growth opportunities and large free cash-flows. The free cash-flows are used to achieve managerial objectives such as increased size and greater peer group standing rather than shareholder wealth maximization. The ability to do this implies ineffective internal corporate governance mechanisms and management would only consider a move away from this situation if faced with an increased threat of hostile take-over.

US studies on free cash flow influence in the decision to go private have produced mixed results. Lehn & Poulsen (1989) and Singh (1990) lend support to the free cash-flow hypothesis by reporting that firms going private have greater free cash-flows than firms remaining public. In addition, they found that PTPs exhibited lower sales growth, indicating poorer growth prospects, further supporting Jensen (1986b). However, Kieschnick (1998) reworked Lehn & Poulsen's sample using a weighted logistic regression and found free cash-flows and sales growth to be insignificant. In addition, Opler & Titman (1993) also found no evidence that, individually, either free cash-flows or Tobin's Q influence the decision to go private. However, they found that leveraged buyouts are more likely to exhibit the combined characteristics of low Q ratio and high cash-flow than firms remaining public. Further, Halpern and al (2000) also found no evidence to support the free cash-flow hypothesis. Thus, there is limited evidence that US PTPs exhibit excess free cash-flow and poor growth prospects which suggests that going private is not being driven by the need to perform free cash to the shareholders. We expect that the level of free cash flow has an impact to the going private transactions performance.

H2a: Going private transactions performance is positively associated with the level of free cash flow.

### **2.2.2. Tax Benefit**

Going private transactions imply an increase in leverage. This leads to an important

deduction of interests which is a main source of expected wealth gains. It is a major tax shield increasing the pre-recapitalization value. However, it depends on the fiscal regime and the marginal tax rates in the country. Some researchers have opposite opinions on this fiscal effect (Kaplan (1989b); Lowenstein (1985)). Indeed a going private transaction arouses a large amount of debt used to finance the transaction and creates a considerable additional tax shield.

The tax benefit will be more important in Latin America than in Asia. Indeed, according to the World Bank, the level of income taxes in Latin America is equal to 20% and it equals to 8% in Asia. The tax benefit will be more profitable in Latin America than in Asia. We expect that leverage has an impact to the going private transactions performance.

H2b: Going private transactions performance is positively associated with leverage.

### **2.2.3 Ownership Structure**

One aspect of the agency problem that has received little attention is the link between board composition, ownership structures and the PTP decision. In terms of ownership, a US study by Maupin and al. (1984) found that the concentration of ownership among managers and directors was significantly higher in PTPs relative to firms that remain listed. Moreover, monitoring is more difficult with large boards, and buyouts with large syndicates exit sooner as a result, Wright and al. (1995). Indeed, Private Equity firms with significant concentrated ownership have got the incentive and mechanisms to monitor managers through board membership and detailed reporting requirements that go beyond those available to institutional investors in publicly listed corporations, Cumming and al. (2007). In relation to the internal corporate governance mechanisms of listed companies, there has been an increasing international awareness of their role and importance.

The “landscape” of Asian firms is dominated by family firms (Sannajust, 2009). For example, the Chinese family, the guardian of the moral order, like the Confucian model, occupies a central function in China. Traditionally, the Chinese company is rather family. In common parlance, when one speaks of a local company, one refers more to the surname than the name of the company. It is very common to meet in a Chinese company, the phratric family (parents, uncles, aunts and nephews) operating according to a very paternalistic

management mode, based on the principle of exemplarity (Fernandez, Zheng, 2008). Latin America doesn't have the same situation. We don't observe a lot of family firms as Asia sample. We expect that the concentration of shareholders has an impact to the going private transactions performance.

H2c: Going private transactions performance is positively associated with the concentration of shareholders.

## **2.3 Institutional factors**

The agency problems in Asia are very difficult due to the concentrated and segmented ownership structure. Shareholders and Investors have different interests. From Du (2014), they look for non-ethical channels for not supporting the share price appreciation.

Several times, the Chinese Government wanted to eliminate the segmented ownership structure. For example, the government launched on June 2001 the State Shareholdings Reduction Plan (Guoyougu jianchi). Unfortunately, this plan failed with a decrease of sharp share price and the wealth of shareholders (Cumming & Hou, 2014; Kuo, Ning & Song, 2014).

### **2.3.1 Public authorities**

Institutional factors are important to the development of Private Equity and going private transactions. Blonigen (2005) showed that the quality of the institutional environment is an important determinant for the level of development of the country with FDI, especially for that from less developed countries. Naudé & Krugell (2007) indicated that legislation and regulatory quality are important determinants for the development of a country. From Li & Qian (2013), the higher level of institutional development provides better protection of shareholders' rights. Young, Peng, Ahlstrom, Bruton and Jiang (2008) show that this decreases the conflicts between the controlling and the minority shareholders. Controlling shareholders have fewer opportunities to expropriate minority shareholders and hence controlling shareholders resistance to acquisitions will be lower. This result is confirmed by Li & Qian (2013). Indeed, their empirical analysis approves this assumption where the level of provincial institutional development positively moderates the negative influence of the

degree of control of the largest shareholder on the probability of an acquisition. What's more, they showed that CEOs with political connections weaken the resistance of the controlling shareholders to the acquisition.

One of the main characteristics of Chinese Governance mechanism is the dominance of state ownership and control (Kato & Long, 2006; Chen & AlNajjar, 2012). State ownership plays a significant role in bank's management and influences the appointment of directors and the senior management team in the supervisory board in particular. From Firth et al. (2009), there is a negative relationship between government interference in appointing directors and financial performance in China. Pessarossi & Weill (2013) argue that government interference may limit the effectiveness of governance mechanism as this may lead to appointing less profiled (experienced), but loyal, directors in state-owned companies. Lin and al. (2009) find that state ownership may lead to agency problems and has a negative influence on the monitoring role and operating efficiency. Chen & Al-Najjar (2012) find that the higher the level of state ownership, the lower is the supervisory board size and independence.

Ownership structure is one of the main determinants of agency problems. It varies according to the discrepancies in the economic and development stage of each country. The principal-agent problem is very pronounced in the Chinese financial sectors due to government ownership and to the political appointment of directors. In such an environment the primary objective deviates from wealth maximization to social welfare maximization. This may result in corruption and misallocation of resources (Banerjee, 1997).

Pessarossi, Weill (2013) find evidence in favor of the influence of central government ownership on the financing choices of firms because central state owned firms are more likely to issue bonds than others and to borrow uniquely on the bond market. Consequently, LBO is not a good solution for the government.

State ownership is positively associated with short-term debt decisions for large firms whereas foreign ownership is strongly and negatively associated with small firms' use of short-term debt. Indeed, they show that the negative effect of institutional development on firms' access to long-term debt is mitigated when the level of state or foreign ownership is

high. We expect that presence of public authorities in ownership firm has an impact to the going private transactions performance.

H3a: Going private transactions performance is negatively associated with the presence of public authorities among the shareholders.

### **2.3.2. Political stability**

According to the Global Peace Index from the University of Sherbrook, the political stability is more important in Asia than in Latin America. The level is near 3 more times in Asia than in Latin America. To study this instability, we use different indicators from the Quality of Government database as Rothstein, Samanni & Teorell (2011). There are six government governance indicators but we only use three of them: political stability, rule of law and regulatory quality.

Since Barro (1991), it is common to introduce political instability variables in growth models. Indeed, as said Cothren (2002), the new work on the growth in the wake of the endogenous growth theory have prompted economists, including econometric level, broaden their growth model by introducing, among other political variables such as democracy, redistributive policies and political instability. Differences in economic performance could be explained in part by the fact that a country is politically unstable and not the other.

Generally we distinguish, as Brunetti (1997), government instability and political violence. Government instability is the probability for a government to be overthrown, either legally (elections) or by force (coup, revolution). Such instability has consequences both in terms of inefficient macroeconomic policies, as seen in Persson & Svensson (1989) and Alesina & Tabellini (1990), and in terms of uncertainty on policy and future economic environment, as seen in Svensson (1998) in particular. From Cumming and Johan (2007), a higher quality of a country legal system facilitates exits hence the expectation is a more favorable legal environment to induce VCs to invest more often at home and less often abroad.

We expect that political stability has an impact to the going private transactions performance.

H3c: Going private transactions performance is positively associated with the political stability.

### **3. Data sources and methodology**

Sample takes into account all the going private transactions, especially LBO transactions with a closed transaction status initially in Latin America, which comprises South America, Central America including Mexico, and in a second time in Asia (North, Central and South) from 2000 to 2011. The final date of the sample is justified by the fact that we study the performance of delisted firms as private companies in the first three years after the going private transactions.

#### **3.1. Sample description**

We start from a large sample, which comprises going private transactions in Latin America and in Asia from 2000 to 2011. The data for this study was obtained from a number of sources. Our independent and dependent variables originate from Capital IQ, Worldbank, Thomson One Banker databases. The overall objective of this survey was to obtain information both economic, governance and institutional on going private transactions. Previous studies focused on governance and going private transactions (Wright et al., 2000, 2006, 2008). We obtained 352 going private transactions in Latin America and 425 going private transactions in Asia. To refine our research, we added few criteria to improve our going private transactions sample analysis.

On the one hand, as we are interested in the examination of the post-acquisition performance, it is required that the delisted companies continue operating after the stand alone deal. Therefore, we removed from our sample all takeover targets immediately integrated in the acquirer's legal structure. As we are interested in the observation of companies before and after the delisting decision, takeover targets merged with the bidder do not allow this kind of analysis.

On the other hand, we collected information about the going private deals for all these companies from Capital IQ. Unfortunately, we were not able to find all the needed data for the companies. So, the final sample was made of 65 transactions in Latin America and 183

transactions in Asia, which occurred between 2000 and 2011. It is composed of 22 countries from Latin America and of 24 countries from Asia. The detail sample is described in Table 1.

[Insert Table 1]

Note that Brazil for Latin America and China for Asia are the most representative. The sample studied in this article is also diversified between different activity sectors.

[Insert Table 2]

### **3.2. Benchmark comparison**

We decide to study the impact of going private transactions. We create a peer sample to compare the targets of such transactions to similar companies that did not go through an going private transactions. We based our peer selection on Capital IQ of listed companies and applied the following matching algorithm for each private observation similar to Weir and al. (2005), North (2001), Klein & Zur (2009). A matching company i.e. a control firm meets the two following criteria: first, we select all public companies which are headquartered in the same country as the going private firms, second we refine our selection by industry. In a first step, we pick all companies that operate in the same two-digit SIC industry. In case there are fewer than five potential matching firms, we enlarge the industry criterion to the one digit SIC code. And in a second step, in order to identify the final matching firm, we employ a size criterion. In particular, we collect the amount of sales of all remaining firms in the fiscal year preceding the going private announcement and by the number of employees in full time equivalent in the year prior the going private transactions. Both criteria (total assets and employees) have to be within the 70-130% range of total assets and number of employees of the corresponding buyout, Barber & Lyon, (1996). The firm with the smallest absolute sales deviation from the going private firm is chosen as the matching firm. As a final sanity check, we verify by an examination of the stock prices that our matching firm has stayed public for at least two years after the going private announcement. We obtain as the going private transactions sample 65 firms for the Latin America's control sample and 183 firms for the Asia's control sample.

### **3.3. Descriptive statistics**

[Insert Table 3]



In table 3, we present the definition of variables.

[Insert Table 4]

Table 4 presents descriptive statistics of our sample of firms delisted following going private transactions with ownership structure, stock price, macroeconomic and political data which are collected at the end of the year preceding the delisting announcement. Some remarks: the level of debt is bigger for going private firms than for non- going private transactions. It is due to the fact that going private transactions use a significant amount of capital. It is the same observation of the level of leverage. The different cash flows, which generate by going private transactions, create a higher level of free cash-flow for going private transactions than for non- going private transactions even if we see a significant level for non- going private transactions. A concentrated shareholder appears in going private transactions sample.

We also focus on the characteristics of going-private firms before and after the going private transactions. We present and compare means and medians of financial variables for the year before the delisting (year -1), the year after (year 1), and three years after (year 3) for the full sample and for the control sample (going private transactions vs. non- going private transactions). We selected both financial, capital structure, macroeconomics and institutional variables. While panel A presents statistics for the full sample, Panel B compares firms delisting following a going private transaction to firms delisted with a non going private transactions.

### **3.4. Model**

We employ the following model in examining the main performance drivers of macroeconomics, governance and institutional impacts on going private transactions. Two models are created: the first studies the main drivers before the going private transaction and immediately after, the second deals with the period before the transaction and three years after.

$$\Delta ROA (-1, 1) = \alpha + bX + dC + \varepsilon_i$$

$$\Delta ROA (-1, 3) = \alpha + b'X + d'C + \varepsilon_i$$

where  $\Delta ROA$  is a difference measure between the ROA in years 1 and 3 after the delisting;  $X$  is a set of test variables pertaining to macroeconomics, corporate governance and institutional determinants;  $C$  is a set of control variables representing other factors that could be influenced; and  $\varepsilon_i$  represents the traditional error term. We describe each of the variables in Table 3.

ROA is defined as the firm's performance on assets computed as EBIT (EBITDA) over the firm's total assets at the end of the previous year. We compare the relation between  $\Delta ROA$  and independent variables before the delisting in a first time and three years after the delisting in a second time.

To test the effect in the going private transactions sample relative to the non- going private transactions sample, we use the methodology from Kim, Hoskisson and Wan (2004); Bruton, Filatotchev, Chahine & Wright (2010) where we introduce interactions between the LBO dummy and the four legal/institutional status variables (e.g., legal status, political stability, regulatory quality and rule of law).

#### **4. Results**

To ensure a parsimonious analysis and reduce the complexity of a large number of interaction terms, we present Asia and Latin America's results in separate parallel columns to enable an instant comparison between firms.

[Insert Tables 5-6]

##### **4.1 Performance in emerging economies**

Some remarks corroborate with our previous results. History of the firm is important and it has a positive and significant effect on performance of going private transactions. Indeed, in Asia, we have a large number of small firms and family entrepreneurship is dominant. We demonstrate that when a family shareholder initiates a going private transaction, this affects positively the firm's operating performance. As said by Olivier Carcy (2014), the Geneva based Global Head of Private Equity at Crédit Agricole's private banking unit: "Some people say Asia isn't primed for leveraged buyouts because of the prevalence of family-run companies. But I think it's just a matter of maturity. Once the financial markets develop to support leveraged buyouts then they'll naturally emerge". The results available for the USA,

Canada and Western Europe are not the same as we underlined in previous articles Sannajust (2009) and Sannajust, Arouri & Chevalier (2015).

This result is justified by the asymmetric information. A large shareholder (in this case it is the family shareholder) takes a firm private because it has superior information about firm's profitability. It results from the agency theory: the reduction of agency conflicts between small and large shareholders generates an improvement in the firm's performance. After the delisting, family shareholders have additional incentives to run the firm efficiently because they often invest their own financial resources to buyout minorities and get the control of the going private transactions, since these acquisitions are rarely financed by a debt increase. In view of these results, the level of performance depends on the owner's post-delisting situation.

#### **4.1.1 Long term effect in emerging economies**

Table 6 shows the long-term effect on performance of going private transactions.

We find that the impact of operating performance is more important for one year before and one year after the transaction. It is due to the fact that one year after the delisting, firm will be more flexible: all constraints and costs incurred by the exchange do not apply anymore. Financial results increase. However, as we know, going private transactions imply the extensive use of debt. Therefore, managers are very careful because the firm has to repay the loan in due time. It is a reason to explain the lower results obtained for adjusted  $R^2$  during the performance years -1 and +3. However, in Asia, the impact three years after the going private transaction is also important for the firm. It is a specificity of Asian going private transactions. We can explain this result by the fact that going private transaction is central for a firm and its managers give the same importance to create value at the beginning of the transaction and during the three following years. They have a long-term vision. In the USA and in Europe we don't have the same interpretation, because managers give a priority to short term results i.e. a great importance to the beginning of the period (one year after) and less after. They have a preference for a short-terms vision.

The three main indicators from our three first hypotheses are relevant. Their results confirm that a favourable macroeconomics environment is conducive to a more "successful going

private transaction”. We define in this article a favourable macroeconomics environment with a positive GDP growth, a low level of unemployment and inflation rates.

Concerning macroeconomics variables we confirm that they have a significantly positive impact on performance as Guo and al. (2011). GDP growth is significant. Market return, which is measured by the market adjusted stock price performance in the calendar year before the announcement, presents a positive and significant result before the going private transaction. This indicates that the stock market was able to forecast future firm’s performance. Asian markets confirm their infatuation for going private transactions. In contrast with the USA, going private transactions are new in Asia and the Market reaction is very different.

Regarding Latin America, the performance variables are all positive and significant too. Results are a little bit less significant compared to Asia variables. This is due to the fact that growth in the main countries in Latin America increases but they know some fluctuations and different problems from corruption, problems from oil flux ...

We confirm our hypotheses H1 and H3.

#### **4.1.2 Effect of employee in emerging economies**

[Insert Table 7]

Going private transactions have different impact as we saw previous in this article (managerial, institutional, financial) and also to human resources. For this, we used two variables, employment and profit per employee. As we know, a going private transaction implies restructuration and financial investments to be successful in the delisting process. Therefore, efficiency is the main goal of going private transactions (Shleifer & Summers, 1998, Weston, 1998). Efficiency improvements come from cost cutting in assets and employment, Kaplan, (1989a), Smith (1990), Harris and al. (2005). We can analyze the effect of this restructuring process on the firm’s workforce and its efficiency.

Panel A shows for Asia that there is a decrease in the number of employees after the first year of delisting whereas the profit per employee increases. We can suggest that a reduction of employment leads to an improvement in productivity and later as the firm after delisting wants to reduce the incidence of the cost of employee to a workforce reduction and/or to a

decrease in the wage per hour, Kaplan (1989) Smith (1990), Harris and al (2005). We conclude that firms use going private transactions to restructure their workforce through the number of employees and their cost.

We also notice two opposite results: we get a significant increase in profitability per employee just after the going private transactions whereas we find a decrease in employment level. This result is similar to other studies about going private transactions and efficiency in Europe, Boucly and al. (2009), Harris and al. (2005), Cumming and al. (2007). We conclude that a going private transaction as an acquisition technique allow firms to restructure their workforce. This has a positive impact on the firm's productivity with an increase in the profit per employee. As Shleifer & Summers (1988) explained, it is easier to break implicit contracts with employees for a new owner.

However, we notice another relevant result, an increase in the number of employees three years after the delisting contrary to other countries where this number begins to decrease after the delisting. It is the same interpretation we already mentioned before: managers and shareholders in Asia show a specific behavior, they measure the performance and the quality of the management of the firm on a long-time horizon. As we confirm that the profit per employee also increases, it means, in average, firms develop their activity and need more staff to meet a growing demand.

This analysis is not applicable to Latin America. Contrary to Asia we remark a decrease of the number of employees and a stable trend for the profitability. Latin America has the same culture to the United States with the main goal is the profitability and a reduction of employees. This justifies the fact that in Latin America, we have a decrease of the number of employees after the going private transactions (year +1 and year +3). The profitability is in average stable.

In this case, the difference between Latin America and Asia is the culture that explains the different results.

We confirm our hypotheses H2.

## **4.2 Transaction costs in emerging economies**

Since Williamson (1975), the transaction costs economics explain the firm environment with a contractual or exchange-based approach where the transaction costs of markets are high, hierarchical governance modes will enhance efficiency, although hierarchical modes can have their own bureaucratic costs. The rational governance decision implies a choice between transaction costs to the financial markets, a control for the firm and the governance costs hierarchy. However, organizations will be the most representative in the market with an important presence of uncertainty and small transactions from small agents. From Hoskisson, Hill and Kim (1993), transaction costs economics has led to many studies of the adoption of the multidivisional structure and vertical integration and strategic alliances from Kogut (1988). We remark some extensions to these literature with some different studies such as: Martinez & Dacin (1999) include integrating transaction costs economics and institutional theory; Argyres & Liebeskind (1999) introduce governance inseparability and unanticipated changes in bargaining power as constraints on firm choice; Chiles & McMackin (1996), present varying risk preferences and trust into transaction cost economics; Zacharakis (1997) applied transaction cost economics to entrepreneurs.

Transaction costs economics appeared and applied to developed market economies where there are a good legal regime and a few social norm. But for emerging economies it is more the blur. Some observations appear: from Choi, Lee and Kim (1999), measurement and enforcement are two critically important transaction costs in emerging economies. For them in a country where the price system does not accurately provide signals for efficient resource allocation, measurement costs should be high. In parallel, in a country where official discretion rather than the rule of law defines property rights, enforcement costs will be high (La Porta, Lopez-de-Silanes, Shleifer & Vishny, 1997). Indeed, high transaction costs suggest a preference for hierarchical governance structures over the private market. This last reflexion is confirmed by our result with significant results for ownership variables. For Latin America and Asia, we observe a large level of Free Cash Flow before the going private transactions. This level is more significant for Latin America than in Asia. It would be explained by the fact that in Asia, we have more family and small firms.

We confirm our hypotheses H4.

### **4.3 Effect of LBO dummy and related variables in emerging economies**

The introduction in the model of LBO Dummy is important. We have a positive and a significant result, which justifies its influence of performance results. Leverage presents also significant and positive results. Greater availability of debt and lower interest rates on borrowing are associated with higher leverage in buyout financing structure, Axelson and al. (2012). Leverage should lead to increased firms-level holding period equity performance particularly in successful buyouts, because of pressure to meet service debt requirements. Free Cash-flow has a positive, Wright and al. (2006), and significant effect, Becker & Pollet (2008) on performance for year 1 and especially for year 3 in this study. For taxation, we remark a higher level of tax for LBO than for non-LBO. In general the result for taxation is not significant, Wright and al.(2006), for Europe and the USA samples. Asia and Latin America are two exceptions, Sannajust (2009), Sannajust and al. (2015) showing a positive and significant result because LBO firms obtain tax advantages. This could be explained by the fact it is a new trend and we also notice high growth rate for LBOs and large flows of private equity. We can assume that the post-LBO growth can be explained by an expansion on international markets.

We confirm our hypotheses H5.

### **4.4 Agency Theory in emerging economies**

Agency theory is in link with the previous idea because agency theory deals with a comparison of a firm to a “nexus of contracts” (Jensen & Meckling, 1976). According to the agency theory, managers must follow the interests of external owners but it is difficult for the shareholders to monitor them. What’s more it is difficult to create contracts with all the future drifts from managers (Shleifer & Vishny, 1997). Asymmetric informational between managers and shareholders is present and causes an inflation of monitoring costs. Different studies have been realized for emerging economies. Earle & Estrin (1997) used the case of Russia. They remark that in a transition economic, blockholders will enhance performance through improved monitoring and through enabling foreign owners to introduce new capital and Western experience. This theory is confirmed by our results for the two geographical areas. The results (from Free Cash Flow and ownership hypothesis) are more significant too for Latin America because firms which go private are more bigger and suffered more agency

problem (a dispersed management ...). In Asia this result is significant but less than Latin America.

We confirm our hypotheses H6.

#### **4.5 Role of Institutions in emerging economies**

Shenkar & Von Glinow (1994) suggested that institutional perspective is the most applicable paradigm to explain firm behavioral in emerging economies. However the number of theoretical and empirical studies about this subject is very limited. From Hoskisson, Eden, Lau and Wright (2000), "emerging economies, characterized by trends towards marketization and privatization but still heavily regulated, provide the necessary institutional influences in developing and testing theories". Previous research points to the importance of studying the speed and nature of institutional change and its impact upon enterprise strategies. Institutional factors also have many dimensions, each of which can change at a different rate. Tolbert & Zucker (1996) advised using the process of institutionalization in a future theoretical and empirical work and in particularly that emerging economies are faced to several changes. In an economy, the role of institutions is to reduce monitoring costs that is to say information and transaction costs with a stable and certain structure to increase a good cohesion. If we use a sociological approach from Peng & Heath (1996), the internal growth of firms in transition economies is limited by institutional constraints. So a network-based growth strategy was expected to be more viable in emerging economies. What's more, Oliver (1991) argued that institutions are a solution to facilitate strategy for firms. Indeed firms can react and play an active role if firms have the capacity to move beyond institutional constraints. For example, Jefferson & Rawski (1995) focus their studies on industrial reform in China. They attributed this success to market-leaning institutional change, gradual relaxation of state ownership and control, development of private property rights. Moreover, institutional change provided proper incentives and changes in corporate culture that enabled firms, even state-owned ones, to make improvements. Our results from our three variables, political stability, rule of law, regulatory quality show significant and positive results for Asia. We remark that the introduction of standards, a better compliance of rules begin to take effects. We notice that going private transactions have a better development with a better presence of institutions. For Latin America sample, the results



are positive and a little less significant than in Asia (5% against 1%). According to the Global Peace Index, the level of political instability is low and stable in Latin America contrary to Asia where the level decreases. This impact will be especially significant.

We use interactions variables with the LBO dummy and four variables (legal status, political stability, regulatory quality and rule of law). We confirm for each one that a more political stability, a good regulatory quality and the rule of law are three important factors that affect going private transactions and more precisely its performance. This result is confirmed for the first model (t-1, t+1) and for the second one (t-1, t+3). Regulation, institutional, legal status are three main motivations for the performance of going private transactions in emerging countries.

We confirm our hypotheses H7 and H8.

#### **5. Additional Tests: impact of Central and Local state on going private transactions performance**

[Insert Table 8]

We are interested in the effect of ownership on the performance of going private transactions especially in Asia where central and local governments are present in the firm's ownership. We use all periods to get a better impact, but we don't split the analysis between short term (-1, +1) and long term (-1, +3).

Table 8 contains three geographical dummy variables that represent the three Asian regions of our sample. We have a geographical cluster where Far East and South East Asia are the most representative areas (Table 1).

We use the following model:

$$\Delta ROA(-1, 3) = \beta_1 CA * CSO + \beta_2 CA * LSO + \beta_3 FE * CSO + \beta_4 FE * LSO + \beta_5 SE * CSO + \beta_6 SE * LSO + \varepsilon_i$$

where CA is Central Asia, FE is Far East, SE is South East; CSO is Central State Owned, LSO is Local State Owned.

The results show that in Asia, Far East and South East Asia present positive and significant results. They are justified by the fact that there is a large number of transactions and where five main countries are represented: China, Indonesia, Malaysia, Philippines and Thailand. Moreover, Far East presents the best significant results in our sample due to the presence of China. Indeed, this country has an important attractiveness factor with their level of growth, the size of the country ... Contrary to these results we obtain a positive but not significant impact on performance for Central Asia. It is not surprising because we don't have going private transactions.

To sum up this introduction of geographical variables allows us to understand that the effect of performance is essentially represented by Far East in Asia where the biggest places of going private transactions are represented. Location has an important role on going private performance.

## **6. Conclusion**

In this paper, we contribute to private equity research and more precisely to the improvement of knowledge in Asia and Latin America going private transactions. The drivers of performance were identified through the analysis of 248 operations. The increase in the level of foreign investments and in the number of equity capital operations and more generally the high growth rate of the economies explain the choice of Asian and of Latin America countries for our research.

### **6.1 Theoretical implications**

This study makes several contributions to the literature. This paper extends prior research (Wright, Renneboog, Simons, 2006; Cumming et al., 2007) by using an emerging and comparison sample to improve the key factors of going private transactions performance. Prior research focuses on developing countries in particular to UK and the USA. Few studies focus on Asian countries (Cumming et al., 2010; Sannajust 2009). In our knowledge no one exists about a comparison with emerging markets.

While most of the papers available on going private transactions explain the operation effect around the delisting date, we studied the impacts before and after the delisting (one year before and three years after). We included macroeconomics variables to take into account

GDP growth, unemployment, inflation rates and also, we integrate institutional variables sample for non- going private transactions.

We found that buyouts create value, reduce agency costs, generate a shift from a managerial to an entrepreneurship mindset and lead to an increase in growth for the economy. The introduction of a "divisional variable" in the model demonstrates that divisional buyouts create more value through acquisitions than integrated company buyouts. Information asymmetries between existing and new management teams explain this difference in performance. Other analysis including leverage, ROA, market return and shareholders characteristics variables confirm the preceding result. We don't validate the non-significant result obtained for the taxation variable by several authors, Wright et al. (2006); in our analysis, taxation has a positive impact on going private transactions. Indeed, going private transactions processes imply large financial flows and tax consolidation plays an important role.

In our model, macroeconomics variables show a positive and significant influence on value creation (industry growth and GDP growth for example). We conclude that a positive macroeconomic environment is more profitable for the development of going private transactions and also of value creation on going private transactions. Economic and financial academics explain that going private transactions are one of the processes used to implement drastic "cost cutting" measures that the target management is reluctant to enforce and act as growth engines. We validate this hypothesis because we observe the number of employees decreases over the years while the net earnings per employee increases; this result means that going private transactions imply a workforce restructuring. We also find that LBOs have higher financial performance (ROA, level of assets...) than the control sample.

A stable political environment is also a main driver for the performance of going private transactions. In this study we use three factors, political stability, rule of law and regulatory political. We confirm that these drivers impact positively the performance of going private transactions. The presence of public authorities as shareholders has a negative impact on going private operations due to the agency costs created.

The introduction of geographical dummy variables in Asia shows that Far East is the main region as far as the number of going private transactions is concerned. This is validated by

the econometrical analysis. The South East region also shows a significant result. Only Central Asia doesn't have significant results. Negative and significant results (agency conflicts and asymmetric information are the main reasons) are explained by the presence of central and local public authorities in the equity structure.

When we analyze the relationship between financial performances of going private transactions, our study reveals that, unlike in the USA and in Europe where the operating performances are only important one year before and one year after the transaction, the impact for Asian firms stays at a high level three year after the LBO. In Asia, managers give the same importance to value creation any time and demonstrate a constant behaviour different from their US or European counterparts.

To sum up, this paper brings additional evidence in favor of "the going private transactions better performance argument" and considers new independent variables as drivers of operating performance. Macroeconomics and political/institutional variables show an impact as important as governance factors on going private transactions value creation.

The characteristics of the debts included in the balance sheets (maturity, fixed or variable interest rates for example) are not available in our data basis. A test including this information could bring other elements of explanation in a future research. The using of abnormal performance level will be interesting to see the impact of going private transactions performance (Acharya, Gottschalg, Kehoe, 2012; Bergström, Grubb, Johnsson, 2007).

## **6.2 Managerial implications**

This study also offers important managerial implications for managers of entrepreneurial firms in emerging markets. This observation is more important for Asia. Managers come from developing countries, have to be careful that state ownership and state control are very dominant in Asia firms (Kato & Long, 2006; Chen & AiNajjar, 2012). State ownership has an important role with banks negotiations and it has influenced to director's decision of the firm. Management team is not alone to decide, to borrow and to take decisions. State is omnipresent in firm's decision. Managers don't have to neglect the role of state in firm's ownership.

The role of this state can be a little bit qualified when going private transactions belongs to a big sub region in Asia. A big sub region is where the main cities are present. Indeed, the fact that firms belong to a dynamic and competitive region cause a better result as those in a “small sub-region”.

Manage going private transactions in Latin America imply a different point of view as manage going private transactions in Asia. In Latin America the most important point is to perform more and more without employ more. In Asia, performance is also important but with a different point of view. When the level of performance increases after a going private transaction, managers have a long-term vision and they employ more and more in order to increase the growth in good conditions and to improve their knowledge. Innovation will be a reason of this increase of the number of employees three years after a going private transaction.

Going private transaction is a very good solution to resolve agency costs and problems especially in Latin America where the ownership is dispersed and large. The level of free cash flow decreases in order to pay the debt and not to finance managers’ projects. The firm can increase its growth.

## References:

- Acharya V., Gottschalg O., Kehoe M., 2012, Corporate Governance and Value creation: evidence from Private Equity, *Review Financial Studies*, 26 (2), 368-402
- Achleitner A., Betzer A., Goergen M., Hinterramskogler B., 2013, Private Equity acquisitions of Continental European firms : the impact of ownership and control on the likelihood of being taken private, *European Financial Management*, 19(1), 72-107
- Alesina A., Tabellini G., 1990, A political theory of fiscal deficits and government debt , *Review of Economic Studies*, vol 57, pp. 403-414.
- Argyres N., Liebeskind J.P., 1999, Contractual commitments, bargaining power, and governance inseparability : incorporating history into transactions cost theory, *Academy of Management Review*, 24, 49-63
- Armour J., Cumming D.J., 2006, The legislative road to silicon valley, *Oxford Economic Papers*, 58, pp.596-635
- Arnold D.J., Quelch J.A., 1998, New strategies in emerging economies, *Sloan Management Review*, 40 (1), 7-20
- Axelson, U., Jenkinson, T., Stömberg, P., Weisbach, M.S., 2012, Borrow cheap, buy high? The determinants of leverage and pricing in buyouts, *Journal of Finance*, 68(6), 2223-2267
- Bae, S.C., Hendershott, R.J. and Jo, H., 2000, Choosing an organizational form: leveraged buyouts versus leveraged recapitalizations, *Working Paper Bowling Green State University*
- Banerjee, 1997, A theory of misgovernance, *The quarterly journal of economics*, 112 (4), 1289-1332
- Barber, Lyon 1996, Detecting abnormal operating performance: the empirical power and specification of test statistics, *Journal of Financial Economics*, 41, 359-399
- Barro R.J., 1991, Economic growth in a cross section of countries, *Quarterly Journal of Economics*, vol 54, pp. 407-444.
- Becker, B. and Pollet, J., 2008, The decision to go private. Working paper.
- Berger A.N. and G.F. Udell, 1998, The economics of small business finance: The roles of private equity and debt markets in the financial growth cycle, *Journal of Banking and Finance*, 22: 613-673
- Bergström C., Grubb M., Jonsson S., 2007, The operating impact of buyouts in Sweden a study of value creation, *The Journal of Private Equity*, 11 (1), 22-39
- Berle A., Means G., 1932, *The Modern Corporation and Private Property*, MacMillan, New

York

Blonigen B.A., 2005, A review of the empirical literature on FDI determinants, *Atlantic Economic Journal*, 33 (4), 383-403

Boucly Q., Sraer D., Thesmar D., 2009, Leveraged buyouts, evidence from French deals, *The Global Economic impact of Private Equity Report 2009*, World Economic Forum

Boucly Q., Sraer D., Thesmar D., 2011, Job creating LBO, *Journal of Financial Economics*, 102, 2011, 432-453

Brunetti A., 1997, *Politique et croissance économique, comparaisons de données internationales* », Etudes du Centre de Développement, OCDE

Bruton G., Filatotchev I., Chahine S., Wright M., 2010, Governance, Ownership structure and performance of IPO firms : the impact of different types of private equity investors and institutional environments, *Strategic Management Journal*, 31, 491-509

Cadbury Committee, 1992, *Report of the Committee on the Financial Aspects of Corporate Governance*, Gee, London.

Chen, C.H. and B. Al-Najjar, 2012, The determinants of board size and independence: Evidence from China. *International Business Review*, 21(5), 831-846.

Chevalier A., Sannajust A., 2011, Why do firms go private?, *Bankers, Markets and Investors*, n°113

Choi C. J., lee S.H., Kim J.B., 1999, A note on countertrade : contractual uncertainty and transaction governance in emerging economies, *Journal of International Business Studies*, 30, 189-201

Chiles T.H., mMackin J.F., 1996, Integrating variable risk preferences, trust ans transaction cost economics, *Academy of Management Review*, 21, 73-99

Cothren R., 2002, A model of military spending and economic growth, *Public Choice*, vol 110, pp. 121-142.

Croci, Del Giudice, 2014, Delistings controlling shareholders and firm performance in Europe, *European Financial Management*, 20 (2), 374-405

Cumming D.J., MacIntosh J.G., 2006, Crowding Out Private Equity: Canadian Evidence, *Journal of Business Venturing*, 21, 569-609

Cumming D.J., Johan S.A., 2007, Regulatory Harmonization and the Development of Private Equity Markets, *Journal of Banking and Finance*, 31, 3218-3250

Cumming, D., Siegel, D.S. and Wright, M., 2007, Private Equity, Leveraged Buyouts and Governance. *Journal of Corporate Finance*, 13, 439-160

Cumming, D.J., Walz, U., 2010, Private equity returns and disclosure around the World Journal of International Business Studies 41, 727-754.

Cumming D.J., G. Fleming S. Johan and M. Takeuchi, 2010, Legal Protection, Corruption and Private Equity Returns in Asia, Journal of Business Ethics, 95:173–193

Cumming, D., & Hou, W., 2014, Valuation of restricted shares by conflict- ing shareholders in the split share structure reform. European Journal of Finance, 20, 778–802.

Dahya, J. and Powell, R., 1999, *Top Management Changes Following Hostile and Friendly Take-overs*, ACCA Research Report, 61. London.

DeAngelo, H., DeAngelo, L. and Rice, E., 1984, Going private: minority freeze outs and stockholders' wealth, Journal of Law and Economics, 27, 367-402.

De Beule F., Duanmu, 2012, Location determinants of internationalization: a firm level analysis of Chinese and Indian acquisitions: a meta analysis, Strategic Management Journal, 30(3), 264-277.

Diller C., Kaserer. C., 2009, What drives cash-flow based European private equity returns? – Fund inflows, skilled GPs and/or risk?, European Financial Management, 15, 643-675.

Du, X. Q., 2014, Does religion mitigate tunneling? Evidence from Chinese Buddhism. Journal of Business Ethics, 125, 299–327.

Dunning J.H., Lundan S.M., 2008, Institutions and the OLI paradigm of the multinational enterprise, Asia Pacific Management Journal, 25(4), 573-593.

Earle J., Estrin S., 1997, After voucher privatization: the structure of corporate ownership in Russian manufacturing industry, Center for Economic Policy Research (CEPR) discussion paper n° 1736, London

Faccio, M., Lang, L. H.P., 2002, The ultimate ownership of western European corporations, Journal of Financial Economics, 65, 365-395

Fama, E.F., 1980, Agency problems and the theory of the firm, Journal of Political Economy, 88, 134-145.

Fama, E and Jensen, M., 1983, Separation of ownership and control, Journal of Law and Economics, 40, 301-349

Fang L. and R. Leeds, 2008, Indian Private Equity Cases: Introduction, in Globalization of Alternative Investments Working Papers Volume 1: The Global Economic Impact of Private Equity Report 2008 (World Economic Forum, Geneva), pp. 141–142.

Fehn R., Fuchs T., 2003, Capital market institutions and Venture Capital: do they affect unemployment and labor demand? CESifo Working Paper, 898.



Fernandez, B., Zheng L, 2008, Culture et gestion en Chine : “Gérer un grand pays, c’est comme cuisiner un petit poisson”», dans Eduardo Davel, Jean-Pierre Dupuis et Jean-François Chanlat (dir.), *Gestion en contexte interculturel : approches, problématiques, pratiques et plongées*, Québec, Presses de l’Université Laval et Télé-université (UQAM)

Firth C, Charleston MA, Duffy S, Shapiro B, Holmes EC., 2009. Insights into the evolutionary history of an emerging livestock pathogen: Porcine Circovirus 2. *J Virol.* 83:12813-12821.

Fleming, Takeuchi, 2010, Leveraged buyouts and control oriented investments in Asia, *Oxford Handbook of Private Equity*

Fortanier F., Tulder R., 2009, Internationalization trajectories, a cross country comparison: are larger Chinese and Indian companies different ?, *Industrial and Corporate change*, 18(2), 233-247.

Franks, J. and Mayer, C., 1996, Hostile take-overs and the correction of managerial failure, *Journal of Financial Economics*, 40, 163-181.

Frankfurter, G.M. and Gunay, E., 1992, Management buy-outs: the sources and sharing of wealth between insiders and outside shareholders, *Quarterly Review of Economics and Finance*, 32, 82-95.

Gatauwa J.M., Mwithiga A.S., 2014, Private Equity and economic growth: a critical review of the literature, *European Journal of Business and Innovation Research*, 2, n°3, 1-10

Gompers, P., and J. Lerner, 1998, What Drives Venture Capital Fundraising? *Brookings Papers on Economic Activity and Microeconomics*, 149-192.

Gompers P., Lerner J., 1999, An analysis of Compensation in the US Venture Capital Partnership, *Journal of Financial Economics*, 51 (1), 3-44

Guo, S., Hotchkiss, E.S., Song, W., 2011, Do buyouts (still) create value? *Journal of Finance* 66,479-517.

Greenbury, R., 1995, *Directors’ Remuneration: Report of the Study group Chaired by Sir Richard Greenbury*, Gee, London.

Halpern, P., Kieschnick, R. and Rotenberg, W., 2000, “Why firms engaged in levered recapitalisation rather than levered buyout”, *Working Paper University of Texas at Dallas*.

Harris, R., Siegel, D., Wright, M., 2005, Assessing the impact of management buyouts on economic efficiency: plant-level evidence from the United Kingdom, *Review of Economics and Statistics*, 87, 148-153

Hoskisson, R.E., Hill C.W.L., Kim H., 1993, The multidivisional structure : organizational fossil or source of value, *Journal of Management*, 19, 269-298

Hoskisson, R.E., Eden L., Lau C.M., Wright M., 2000, Strategy in emerging economies, *The Academy of Management Journal*, 43(3), 249-267

Hoshi T., Kashyap A.K. Sharfstein, D., 1990, The role of banks in reducing the costs of financial distress in Japan, *Journal of Financial Economics* 27, 67-88.

IFC, International Finance Corporation, 2012, World Bank Group

Ippolito R., 2007, Private Equity in China and India, *Journal of Private Equity* 10(4): 36–41

Jefferson G.H., Rawski T.G., 1995, How industrial reform worked in China: the role of innovation, competition, and property rights. In M. Bruno & B. Pleskovic (Eds), *Proceedings of the World Bank annual conference on development economics*, 129-156, Washington, DC, World Bank

Jensen, M.J. and Meckling, W.H., 1976, Theory of the firm: managerial behavior, agency costs and ownership structure, *Journal of Financial Economics*, 13, 305-360

Jensen M.C. et Meckling W.H., 1986a, Divisional Performance Measurement, Harvard Colloquium on Field Studies in Accounting, June 18-20, in M.C. Jensen, *Foundations of Organizational Strategy*, Harvard University Press, 1998, p. 345-361.

Jensen, M., 1986b, The take-over controversy: analysis and evidence, *Middle and Corporate Finance Journal*, 4, 323-329.

Kaplan S.N, 1989b, Management buyouts: evidence on taxes as a source of value, *Journal of Finance*, 44, 611-632

Kaplan, S. N. and A. Schoar, 2005, "Private Equity Performance: Returns, Persistence, and Capital Flows," *Journal of Finance*, 60, pp. 1791-1823.

Kaplan, S.N., Strömberg, P.J., 2009, Leveraged buyouts and private equity, *Journal of Economic Perspectives* 23(1), 121-146.

Kato K. and Schallheim J., 1993, Private equity financings in Japan and corporate grouping, *Pacific-Basin Finance Journal*, 1(3): 287–307

Kato, Takao K., and Cheryl X. Long, 2006a., CEO turnover, firm performance, and enterprise reform in China: Evidence from micro data, *Journal of Comparative Economics* 34 (4): 796-817.

———. 2006b, Executive compensation, firm performance, and corporate governance in China: Evidence from firms listed in the Shanghai and Shenzhen Stock Exchanges, *Economic Development and Cultural Change* 54 (4): 945-983.

———. 2006c, Executive turnover and firm performance in China, *American Economic Review* 96 (2): 363-367.

Kennedy, V. and Limmack, R., 1996, Take-over activity, CEO turnover, and the market for corporate control, *Journal of Business Finance and Accounting*, 23, 267-293.

Kieschnick, R., 1998, Free cash-flow and stockholder gains in going private transaction revisited, *Journal of Business Finance and Accounting*, 25, 187-202.

Kim H, Hoskisson RE, Wan WP., 2004, Power dependence, diversification strategy, and performance in keiretsu member firms. *Strategic Management Journal* 25(7), 613–636.

Kini, O., Kracaw, W. and Mian, S., 1995, Corporate takeovers, firm performance and board composition, *Journal of Corporate Finance*, 1, 383-412.

Klein, A., Zur, E., 2009, Entrepreneurial shareholder activism: hedge funds and other private investors, *Journal of Finance*, 64(1), 187-229

Kogut B., 1988, Joint ventures: theoretical and empirical perspectives, *Strategic Management Journal*, 9, 319-332

Koller T., Goedhart M., Wessels D., 2005, *Valuation: measuring and managing the value of companies*, Wiley

Kuo, J. M., Ning, T. M., & Song, X., 2014, The real and accrual-based earnings management behaviors: Evidence from the split share structure reform in China. *The International Journal of Accounting*, 49, 101–136.

La Porta R., Lopez-de Silanes F., Shleifer A., Vishny R., 1997, Legal determinants of external finance, *Journal of Finance*, 52, 1131-1150

La Porta, R., Lopez-de-Silanes, F., Shleifer, A., 1999, Corporate ownership around the world, *Journal of Finance*, volume 54, pages 471-517

Lehn, K. and Poulsen, A., 1989, Free cash-flow and stockholder gains in going private transactions, *The Journal of Finance*, XLIV, 771-787

Li J.T., Qian C., 2013, Principal-principal conflicts under weak institutions : a study of corporate takeovers in China, *Strategic Management Journal*, 34 (4), 498-508

Lin C., Ma Y., Su D., 2009, Corporate governance and firm efficiency : evidence from China's publicly listed firms, *Managerial and Decision Economics*, 30 (3), 193-209

Ljungqvist, A., Richardson, M., Wolfenzon, D., 2008, The investment behavior of buyout funds: Theory and evidence. New York University Working Paper FIN-07-020.

Lowenstein L., 1985, Management Buyouts, *Columbia Law Review*, 85, 730-784

Malenko A., Malenko N., 2015, A theory of LBO activity based on repeated debt-equity conflicts, *Journal of Financial Economics*, 117, 607-627

Malik K., Dhankar R.S., 2017, The relationship among Private Equity, Inflation and Economic Growth, *The Journal of Private Equity*, 20, n°3, 60-67

Manne, H.G., 1965, Mergers and the market for corporate control, *Journal of Political Economy*, 73, 110-120.

Martinez R.J., Dacin M.T., 1999, Efficiency motives and normative logic: combining transactions costs and institutional logic, *Journal of Management*, 25, 75-95

Maupin, R.J., Bidwell and Ortengren, 1984, An Empirical Investigation of the Characteristics of Publicly Quoted Companies Which Change to closely held ownership through management buy-outs, *Journal of Business Finance and Accounting*, 11, 345-59.

Morck, R., Shleifer, A. and Vishny, R.W., 1988, Characteristics of targets of hostile and friendly take-overs, in *Corporate Take-overs: Causes and Consequences*, Auerbach, A.J (ed), University of Chicago Press. IL.

Myers, S.C., 1977, Determinants of corporate borrowing, *Journal of Financial Economics*, 5, 147-175

Nakagane K., Michelon L., 1999, Les mécanismes du chômage en Chine, *Perspectives chinoises*, n°54, 14-21

Naqi S. A. and Samanthala H. 2007, "Venture Capital or Private Equity? The Asian Experience", *Business Horizons*, 50(4): 335–344.

Naudé W.A., Krugell W.F., 2007, Investigating geography and institutions as determinants of foreign direct investment in Africa using panel data, *Applied Economic*, 39 (10), 1223-1233

Nikoskelainen, E., Wright, M., 2007, The impact of corporate governance mechanisms on value increase in leveraged buyouts, *Journal of Corporate Finance* 13, 511-537.

North, D.S., 2001, The role of managerial incentives in corporate acquisitions: evidence from the 1990s, *Journal of Corporate Finance*, volume 7, pages 125-149

Oberli A. 2014, Private Equity in Emerging Markets: Drivers in Asia Compared with Developed Countries, *The Journal of Private Equity*, 17(3): 45-61

Opler, T. and Titman, S., 1993, The determinants of leveraged buyout activity: free cash-flow vs. financial distress costs, *The Journal of Finance* , 48(5), 1985-1999.

Oliver C, 1991, Strategic responses to institutional processes, *Academy of Management Review*, 16, 145-179

Paglia J., Harjoto M., 2014, The effects of private equity and venture capital on sales and employment growth in small and medium-sized businesses, 47, 177-197

Peng M.W., Heath P.S., 1996, The growth of the firm in planned economies in transition: institutions, organizations, and strategic choices, *Academy of Management Review*, 21, 492-528

Peng M.W., Wang D., Jiang Y., 2008, An institutional-based view of international business strategy: a focus on emerging economies, *Journal of International Business Studies*, 39(5), 920-936

Peng M.W., Sun S.L., Pinkham B., Chen H., 2009, The institutional-based view as a third leg for a strategy tripod, *Academy of Management Perspectives*, 23(3), 63-81

Peng M.W., 2011, *Global business*, Cincinnati:South-Western Cengage Learning

Persson T. et Svensson L., 1989, Why a stubborn conservative would run a deficit : policy with time-inconsistent preferences , *Quarterly Journal of Economics*, vol 104, pp. 325-345.

Pessarossi P., Weill L., 2013, Do capital requirements affect bank efficiency ? Evidence from China, *BOFIT Discussion Paper*, 28

Pessarossi P., Weill L., 2013, Choice of corporate debt in China : the role of state ownership, *China Economic Review*, 26, 1-16

Phalippou, L., Zollo, M., 2005, What drives private equity fund performance? Wharton Financial Institutions Center Working Paper #05-41.

Renneboog L., Simons T., 2008, Public to private transactions: LBOs, MBOs, MBIs, and IBos, *New Modes of Governance*, Projet no. CIT1-CT-2004-506392

Ricardo D., 1817, *Des principes de l'économie politique et de l'impôt*, Traduction en français

Rothstein B., Samanni M., Teorell J., 2011, Explaining the welfare state : power resources vs. Quality of government. *European Political Science Review*, 1 (1), 1-28

Rugman A.M., Li J., 2007, Will China's multinationalssucceed globally or regionally ?, *European Management Journal*, 25(5), 333-343

Sannajust, A., 2009, Motivations and Performance of Public to Private Transactions: an international study, PhD in Finance, University of Clermont-Ferrand, 310

Sannajust A., Aroui M., Chevalier A. 2015, Drivers of LBO operating performance: an empirical investigation in Latin America, *European Business Review*, 27, n°2

Shenkar O., von Glinow, M.A., 1994, Paradoxes of organizational theory and research: using the case of China to illustrate national contingency, *Management Science*, 40, 56-71

Shleifer A., Vishny R., 1997, A survey of corporate governance, *Journal of Finance*, 52, 737-783

Shivdasani, A., 1993, Board composition, ownership structure and hostile takeovers, *Journal of Accounting and Economics*, 16, 167-198.

Shleifer, A., Summers, C.H., 1988, Breach of trust in hostile takeovers, chapter 2. In: Auerbach, A.J. (Ed.), *Corporate Takeovers: Causes and Consequences*. University of Chicago Press, Chicago.

Singh, H., 1990, Management Buyouts and Shareholder Value, *Strategic Management Journal*, 111-29.

Smith, A., 1990, Capital ownership structure and performance: the case of management buyouts, *Journal of Financial Economics*, 13, 143-165.

Stein E., Daude C., 2001, Institutions, integration and the location of foreign direct investment, Washington DC, United States, Inter American Development Bank.

Sun S.L., Peng M.W., Ren B., Yan D., 2012, A comparative ownership advantage framework for cross-border M&As : the rise of Chinese and Indian MNEs, *Journal of World Business*, 47(1), 4-16

Svensson J., 1998, Investment, property rights and political instability : theory and evidence, *European Economic Review*, vol 42, pp. 1317-1341.

Tirole, 2001, Corporate Governance, *ECONOMETRICA* 1,

Tolbert P.S., Zucker L.G., 1996, The institutionalization of institutional theory, in S.T. Clegg, C/ Hardy, & W.R. Nord (Eds), *Handbook of organization studies*, 175-190, London :Sage

Toms, S., Wright, M., 2005, Divergence and convergence within Harris, R., Siegel, D.,

Weir, C., Laing, D., Wright, M., 2005, Undervaluation, private information, agency costs and the decision to go private. *Applied Financial Economics* 15, 947–961.

Weston, J.F., Chung, K.S., Siu, J.A., 1998, *Takeovers, Restructuring and Corporate Governance*, second edition. Prentice-Hall, New York.

Williamson O.E., 1975, *Markets and hierarchies : analyses and anti-trust implications*, New York :Free Press

Wright. M., Thompson, S., Robbie, K., Wong, P., 1995, Management buyouts in the short and long-term, *Journal of Business Finance & Accounting*, 22, 461-482

Wright, M., Hoskisson, R.E., Busenitz, L.W., Dial, J., 2000, Entrepreneurial growth through privatization: The upside of management buyouts. *Academy of Management Review* 25,591-601.

Wright, M., 2005, Assessing the impact of management buyouts on economic efficiency: plant-level evidence from the United Kingdom. *Review of Economics and Statistics* 87, 148–153.

Wright M, Renneboog, L., Simons T., 2006, Public-to-Private transactions in the UK, Working paper Tilburg University.

Xiao L., 2013, From Growth Equity to Leveraged Buyout: Making Private Equity Investments in China, MIT Libraries, 101 pages.

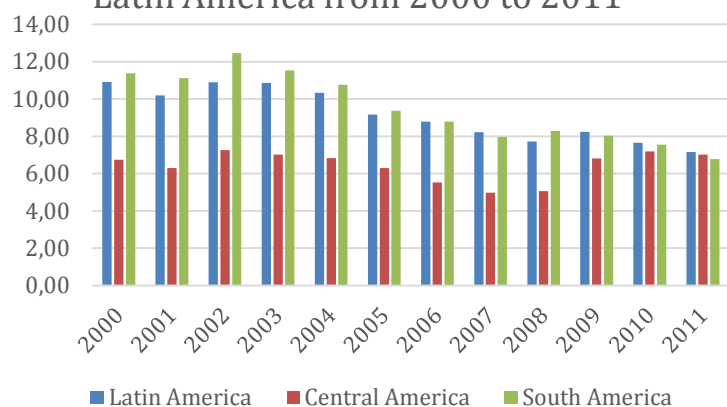
Young M.N., Peng M. W., Ahlstrom D., Bruton G.D., Jiang Y., 2008, Corporate governance in emerging economies : a review of the principal-principal perspective, *Journal of Management Studies*, 45 (1), 196-220

Zacharakis A, 1997, Entrepreneurial entry into foreign markets : a transaction cost perspective, *Entrepreneurship : theory and practice*, 21 (3), 23-39

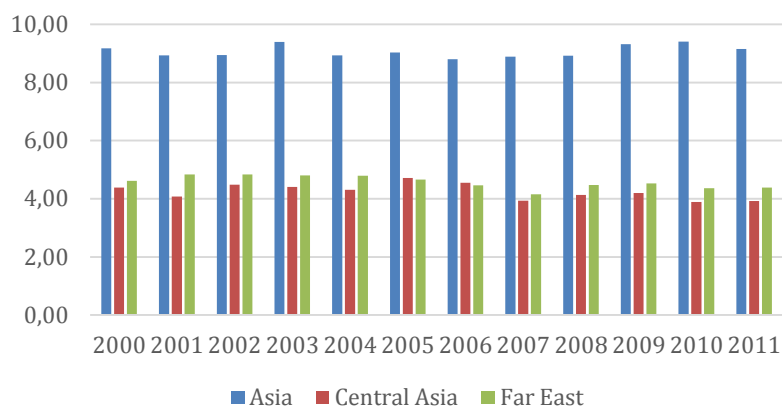
Figure 1: Unemployment, Inflation and GDP growth rates in LA and Asia



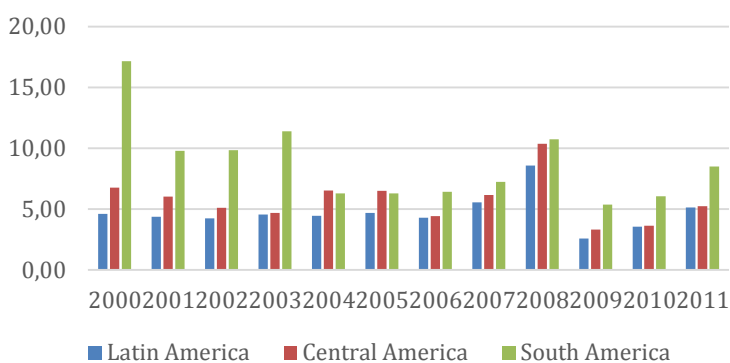
### Evolution of Unemployment rate in Latin America from 2000 to 2011



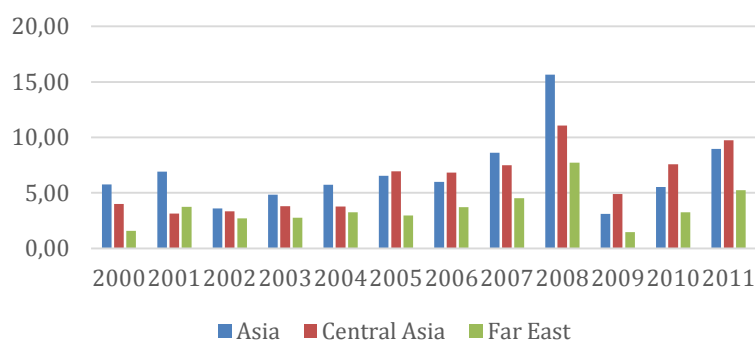
### Evolution of Unemployment Rate in Asia from 2000 to 2011



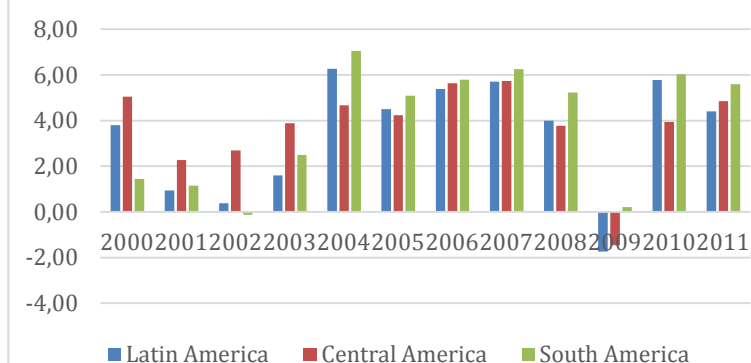
### Evolution of Inflation rate in Latin America from 2000 to 2011



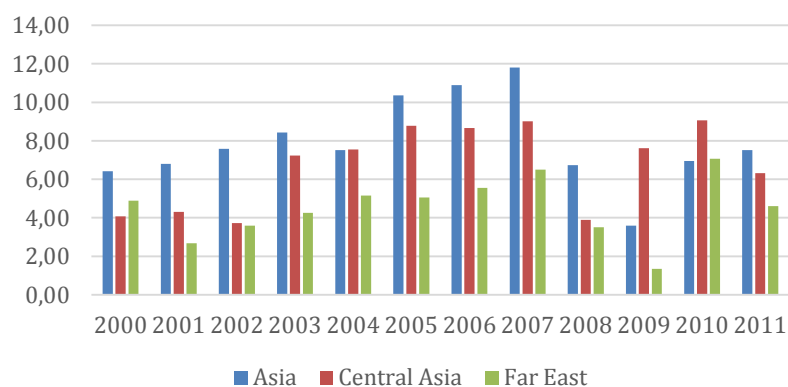
### Evolution of Inflation rate in Asia from 2000 to 2011



### Evolution of GDP growth in Latin America from 2000 to 2011



### Evolution of GDP growth in Asia from 2000 to 2011



**Table 1: Repartition of sample**

Countries	Areas	Countries	Number
Latin America	Central America	Belize	0
		Costa Rica	1
		El Salvador	0
		Guatemala	0
		Honduras	0
		Mexico	25
		Nicaragua	0
		Panama	0
	South America	Argentina	5
		Bolivia	0
		Brazil	30
		Chile	1
		Colombia	0
		Ecuador	0
		Falkland Islands	0
		French Guiana	0
		Guyana	0
		Paraguay	0
		Peru	1
		Suriname	0
		Uruguay	1
		Venezuela	1
Asia	Central Asia	Afghanistan	0
		Armenia	0

		Azerbaijan	0
		Georgia	0
		Iran	4
		Kazakhstan	0
		Kyrgystan	0
		Tajikistan	0
		Turkmenistan	0
		Uzbekistan	0
	Far East	China	67
		Korea, North	6
		Macau	7
		Mongolia	4
		Taiwan	12
	South East	Brunei	3
		Cambodia	5
		East Timor	0
		Indonesia	23
		Laos	0
		Malaysia	19
		Philippines	6
		Thailand	17
		Vietnam	10

**Table 2: Repartition of business sectors**

<b>Business sectors</b>	<b>Number</b>
Construction	24
Finance/Insurance	49
Manufacturing	54
Retail Trade	38
Services	83
<b>TOTAL</b>	<b>248</b>

**Table 3: Definition of variables**

	Variables	Definitions
<b>Corporate Governance variables</b>	Debt to equity	Ratio between total debt and equity
	Leverage	ratio between total debt and total assets
	Taxation	all taxes paid by the company during the accounting period scaled by the previous year's total assets
	Free Cash Flow	the sum of the firm's net income plus depreciation scaled by the previous year's total assets
	Divisional	a dummy variable with a value of 1 if the buyout is a division of a larger company and 0 if the buyout comprised a whole company
	Shareholders	a dummy variable which takes a value of 1 if the shareholder in the firm is large (> 10% of the firm's voting rights) and 0 if the shareholder is dispersed
<b>Macroeconomics variables</b>	GDP growth	Annual percentage growth rate of GDP at market prices based on constant local currency. It is calculated from the entry year to exit year
	Industry growth	It is calculated from the entry year to the exit year
	Interest rate	It is an annual rate
	Unemployment rate	it is the share of the labor force that is without work but available for and seeking employment.
	Inflation	It is measured by the consumer price index reflects the annual percentage change in the cost to the average consumer of goods and services such as yearly.
<b>Institutional variables</b>	Political stability	it measures perceptions of the likelihood of political instability (source : <a href="http://www.govindicators.org">www.govindicators.org</a> )
	Rule of law	it captures perceptions of the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence (source : <a href="http://www.govindicators.org">www.govindicators.org</a> )
	Regulatory quality	It captures perceptions of the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development (source : <a href="http://www.govindicators.org">www.govindicators.org</a> )
<b>Employment</b>	Employees	the number of full time employees of the company
	Profit per employee	the ratio between the firm's profits before taxes divided by the number of employees
<b>Geographical areas</b>	Central Asia	a dummy variable which takes a value of 1 if the firm is located in Central Asia and 0 otherwise
	Far East	a dummy variable which takes a value of 1 if the firm is located in Far East and 0 otherwise
	South East	a dummy variable which takes a value of 1 if the firm is located in South East and 0 otherwise
<b>Governance</b>	Central State owned	a dummy variable which takes a value of 1 if the borrower is controlled by the central governance and 0 otherwise
	Local State owned	a dummy variable which takes a value of 1 if the borrower is controlled by the local governance and 0 otherwise

<b>Control variables</b>	FDI	It refers to direct investment equity flows in the reporting economy. It is the sum of equity capital, reinvestment of earnings, and other capital.
	Market return	the annual return from the beginning of the entry month on the end of the exit month of share index
	Sales growth	it is a ratio which equals to $\text{Current Period Net Sales} - \text{Prior Period Net Sales} / \text{Prior Period Net Sales} * 100$

**Table 4: Descriptive statistics**

The table reports mean and median of financial variables, capital structure variables and macroeconomics variables for the sample of going private transactions and for the control sample (non-going private transaction). The symbols \*\*\*, \*\*, \* denote statistical significance at the 1%, 5% and 10% level, respectively.

**Panel A: Full Sample (496 observations)**

	Year -1		Year 1		Year 3	
	Mean	Median	Mean	Median	Mean	Median
<b><u>Corporate Governance variables</u></b>						
Debt to equity	1,2		1,8		1,5	
Leverage	0.29	0.14	0.43	0.20***	0.54	0.27***
Taxation	2.77	1.67	1.89	0.91***	1.13	0.54***
Free Cash-flows	0.0356	0.0863	0.0397	0.0815***	0.0324	0.0775***
Divisional	58%***		76%***		63%***	
Shareholders	8.7%	7.1%	7.5%	5.2%***	7.1%	6.2%***
<b><u>Macroeconomics variables</u></b>						
GDP growth	10.9%	7.5%	10.2%	7.6%**	10.6%	8.1%**
Industry growth	6.2%	4.7%	5.2%	3.9%**	5.4%	4.3%**
Interest Rate	3.1%*		2.6%*		1.8%*	
Unemployment rate	5,7%					
Inflation rate	7,1%					
<b><u>Institutional variables</u></b>						
Political stability	-0,15					
Rule of law	-0,45					
Regulatory quality	-0,32					
Central State Owned	54%					
Local State Owned	41%					
<b><u>Control variables</u></b>						
FDI	38641.8	2346.3*	31562.1	1753.2**	35696.4	1902.7**
Market return	6.2%	7.1%	9.3%	10.2%**	10.2%	9.9%**
Sales growth	5,3%	5,1%	6,4%	6,5%	7,2%	7,1%

**Panel B: Going private transactions vs Non-Going private transactions**

	Going private transactions						Non Going Private transactions					
	Year -1		Year 1		Year 3		Year -1		Year 1		Year 3	
	Mean	Median	Mean	Median	Mean	Median	Mean	Median	Mean	Median	Mean	Median
<b><u>Corporate Governance variables</u></b>												
Debt to equity												
Leverage	0.36	0.19	0.47	0.25***	0.54	0.32***	0.23	0.08	0.28	0.11***	0.37	0.15**
Taxation	1.9	1.45	1.3	0.95***	0.8	0.79	1.17	1.12***	1.21	1.14***	1.23	1.16***
Free Cash-flows	0.0357	0.0946	0.0304	0.0843***	0.0280	0.0711**	0.0273	0.0795	0.0252	0.0767***	0.0243	0.0745**
Divisional	43%**		55%**		52%**		50%*		62%*		57%	
Shareholders	6.4%	5.5%	6.9%	5.1%	7.2%	5.4%	9.3%	8.3%	8.2%	7.8%***	6.9%	5.8%
<b><u>Macroeconomics variables</u></b>												
GDP growth	11.4%	8.2%	9.3%	7.6%	9.1%	7.2%	7.5%	7.4%	7.5%	7.6%**	7.4%	7.3%**
Industry growth	3.4%	2.5%	4.1%	3.6%**	4.5%	3.9%**	2.9%	2.7%	3.4%	2.9%**	3.9%	3.1%**
Interest Rate	3.1%*		2.5%*		1.7%		2.2%*		2.3%*		2.0%*	
Unemployment rate	5,7%											
Inflation rate	7,1%											
<b><u>Institutional variables</u></b>												
Political stability	-0,15											
Rule of law	-0,45											
Regulatory quality	-0,32											
Central State Owned	54%											
Local State Owned	41%											
<b><u>Control variables</u></b>												
FDI	36793.1	1563.6*	35219.4	1245.7*	31905.7	1179.3*	30546.8	1245.9**	29321.4	1158.9*	31275.3	1056.5*
Market return	6.2%	8.3%	7.3%	9.7%***	9.2%	10.4%**	5.9%	7.9%	6.5%	9.1%	6.8%	
Sales growth	5,3%	5,1%		6,4%		6,5%		7,2%		7,1%		



**Table 5: Change in operating performance between year -1 and year +1**

The table reports estimates of OLS regressions where the dependent variable is  $\Delta ROA_{(-1,1)}$ .  $\Delta ROA_{(-1,1)}$  is computed as:  $ROA_{t+1} - ROA_{t-1}$ . ROA is computed as EBIT over total assets at the beginning of the year. The symbols \*\*\*, \*\*, \* denote statistical significance at the 1%, 5% and 10% level, respectively.

	ASIA	LATIN AMERICA
Debt to equity	0,123 (2,435)**	0,214 (2,416)**
LBO	0,018 (2,304)**	0,028 (2,549)**
Leverage	0,014 (2,172)**	0,036 (2,753)***
Taxation	-0,321 (1,927)*	-0,457 (2,445)**
Free Cash-flows	0,041 (2,893)***	0,129 (2,221)**
Divisional	0,086 (2,537)**	0,136 (1,736)*
Shareholders	0,725 (2,113)*	0,663 (2,252)**
GDP growth	0,426 (2,794)***	0,876 (2,514)**
Industry growth	0,171 (2,662)***	0,642 (2,367)**
Interest Rate	-0,503 (2,478)**	-0,536 (2,372)**
Unemployment rate	-0,143 (2,645)***	-0,224 (2,489)**
Inflation rate	0,358 (2,262)**	0,315 (2,183)**
Political stability	0,211 (3,693)***	0,339 (2,519)**
Political stability*LBO	0,312 (3,014)***	0,385 (3,269)***
Rule of law	0,482 (2,987)***	0,317 (2,446)**
Rule of law*LBO	0,544 (2,893)***	0,636 (2,824)***
Regulatory quality	0,212 (2,715)***	0,364 (2,594)**
Regulatory quality*LBO	0,336 (2,759)***	0,421 (2,751)***
Central Asia	0,868 (1,011)	
Far East	0,421 (2,885)***	
South East	0,535 (2,419)**	
FDI	0,135 (2,804)***	0,313 (2,446)**
Market return	0,346 (2,242)**	0,233 (2,251)**

Sales growth	0,536 (2,141)*	0,439 (2,173)*
Industry fixed effects	YES	YES
Sub region effects	YES	YES
Adjusted R <sup>2</sup>	0.494	0,481
Observations	183	65

**Table 6: Change in operating performance between year -1 and year +3**

The table reports estimates of OLS regressions where the dependent variable is  $\Delta ROA_{(-1,3)}$ .  $\Delta ROA_{(-1,3)}$  is computed as:  $ROA_{t+3} - ROA_{t-1}$ . ROA is computed as EBIT over total assets at the beginning of the year. The symbols \*\*\*, \*\*, \* denote statistical significance at the 1%, 5% and 10% level, respectively.

	ASIA	LATIN AMERICA
	I	I
Debt to equity	0,539 (2,473)**	0,411 (2,548)***
LBO	0,204 (2,367)**	0,254 (2,532)**
Leverage	0,014 (2,649)***	0,321 (2,932)***
Taxation	-0,373 (2,012)**	-0,552 (2,264)**
Free Cash-flows	0,172 (3,213)***	0,219 (2,504)**
Divisional	0,084 (2,359)**	0,118 (2,141)**
Shareholders	0,112 (1,694)*	0,093 (2,705)***
GDP growth	0,496 (3,223)***	0,186 (2,916)***
Industry growth	0,182 (2,501)**	0,087 (2,476)**
Interest Rate	-0,189 (2,213)**	-0,105 (2,261)**
Unemployment rate	-0,514 (2,978)***	-0,375 (2,318)**
Inflation rate	0,304 (3,145)***	0,519 (2,424)**
Political stability	0,156 (2,798)***	0,131 (2,304)**
Political stability*LBO	0,232 (2,798)***	0,209 (2,896)***
Rule of law	0,495 (2,708)***	0,429 (2,436)**
Rule of law*LBO	0,662 (2,998)***	0,822 (2,928)***
Regulatory quality	0,711 (2,773)***	0,524 (2,283)**
Regulatory quality*LBO	0,929 (2,872)***	0,837 (2,772)***
Central Asia	0,423 (1,014)	
Far East	0,249 (2,813)***	
South East	0,528 (2,265)**	
FDI	0,143 (2,429)**	0,291 (2,514)**
Market return	0,231 (3,549)***	0,145 (2,392)**

Sales growth	0,418 (2,316)**	0,345 (2,335)**
Industry fixed effects	YES	YES
Sub region effects	YES	YES
Adjusted R <sup>2</sup>	0.481	0,491
Observations	183	65

---

---

**Table 7: The level of employment**

The table reports mean and median of employees, profit per employees before the delisting (year -1), the year after (year 1) and three years later (year +3) for the sample. Employees represent the number of full time employees of the company. Profit per employees is the ratio between the firm's profits before taxes divided by the number of employees. The symbols \*\*\*, \*\*, \* denote statistical significance at the 1%, 5% and 10% level, respectively.

---

	ASIA						LATIN AMERICA					
	Year -1		Year 1		Year 3		Year -1		Year 1		Year 3	
	Mean	Median	Mean	Median	Mean	Median	Mean	Median	Mean	Median	Mean	Median
<b>PANEL A: FULL SAMPLE</b>												
Employees	1351	211**	1194	175**	1450	258**	985	185**	904	154**	867	120**
Profit per employees	206.9	62**	215.2	70**	295.4	93**	179.4	62**	175,3	59**	181,8	176,7**
<b>PANEL B: LBO vs. NON-LBO*</b>												
Employees	2364	475**	1832	202**	2496	847**	1764	439**	1482	286**	1210	318**
Profit per employees	193.1	67**	324.5	102**	604.6	124**	190,7	68**	180,3	83**	185,9	78**

---

---

**Table 8: Geographical areas and public authorities**

The table shows the impact of the presence of public authorities in each geographical areas in our sample. The symbols \*\*\*, \*\*, \* denote statistical significance at the 1%, 5% and 10% level, respectively.

---

	I	II
Central Asia*CSO	-0.456 (1.012)	
Central Asia*LSO		-0.632 (1.123)
Far East*CSO	-0.341 (2.984)***	
Far East*LSO		-0.413 (2.145)**
South East*CSO	-0.356 (2.192)**	
South East*LSO		-0.513 (2.396)***
Adjusted R <sup>2</sup>	0.463	0.478
Observations	183	183

---