

What Determines the Company to be Public or Private?

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Abstract

Using the survey data from European companies, I want to identify the characteristics that determine whether the company is publicly traded or not. Traditionally, for a private firm, the decision to go public is viewed as a tradeoff between the cost of providing a liquid market and over-monitoring (Pagano and Roell, 1998). Pagano and Panneta (1998) provided an empirical analysis to compare the ex ante and ex post characteristics of IPOs. Aside from those companies that underwent a successful IPO as planned, some companies withdrew from the planned IPOs and remained private for some time. Helbing et al. (2019) analyzed the determinants of IPO withdrawal using data from European companies. Moreover, for those companies which are already listed and traded publicly, they have the discretion to stay as a publicly traded company or choose to delist from the stock exchange. In this paper, I want to analyze the determinants of companies making the choice of the company ownership structure (publicly traded or not). Assuming the company (no matter it is public or private) makes the choice of its ownership structure, I plan to use the Probit model to analyze the determinants of choosing to be public or not.

Keywords: 3 to 6 keywords

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1 Motivation

Companies can choose to be a public company or a private company, no matter its original status. I am interested in the potential determinants behind it.

2 Research Questions

What will determine the ownership structure of a company?

3 Related Literature

Shleifer, A., & Vishny, R. W. (1997). A survey of corporate governance. *The journal of finance*, 52(2), 737-783. /// Kim, W., & Weisbach, M. (2005). Do firms go public to raise capital? (No. w11197). National Bureau of Economic Research. /// Pagano, M., Panetta, F., & Zingales, L. (1998). Why do companies go public? An empirical analysis. *The journal of finance*, 53(1), 27-64. /// Pagano, M., & Röell, A. (1998). The choice of stock ownership structure: Agency costs, monitoring, and the decision to go public. *The Quarterly Journal of Economics*, 113(1), 187-225. /// Helbing, P., Lucey, B. M., & Vigne, S. A. (2019). The determinants of IPO withdrawal—Evidence from Europe. *Journal of Corporate Finance*, 56, 415-436. /// Latham, S., & Braun, M. R. (2010). To IPO or not to IPO: Risks, uncertainty and the decision to go public. *British Journal of Management*, 21(3), 666-683. /// Lerner, J. (1994). Venture capitalists and the decision to go public. *Journal of financial Economics*, 35(3), 293-316. /// Bancel, F., & Mittoo, U. R. (2009). Why do European firms go public?. *European Financial Management*, 15(4), 844-884.

4 Research Design

1. model

Probit model to analyze whether the company is publicly traded or not.

2. Data

(a) Cross sectional company-level survey data

- i. BEEPS, Enterprise Surveys conducted in 2018-2020 covered almost 28,000 enterprises in 41 economies of EU, Eastern Europe, Central Asia and Middle East and North Africa
- ii. URL, <https://www.beeeps-ebrd.com/data/2018-2020/>

(b) Questions:

- i. In this context, my main question about the Probit model is I analyze the public company and private company together. Hence, if a company chooses the decision “public”, it may be a public company chooses to “stay” as a public company, or it could be a private company not long ago chooses to “go public”. I am not sure if it will cause problems since I don’t have panel data.
- ii. To the best of my knowledge, I think people analyzed the private companies that went public (IPO). Also, people analyzed the public companies that went private (delisting). However, they did not combine the two kinds of companies (public and private) together to analyze companies’ decisions of ownership structure in the existing literature. This is why I am worried about my application of the Probit model.

5 Outline

- April 10: (1)finish writing the introduction part of the paper (2)finish searching through literature, start writing related literature part
- April 15: finish writing literature review part
- April 22: finish writing empirical strategy

- April 25: finish writing results and conclusion
- Until May 1: proofread and correct my final manuscript