

Corporate Governance and Delisting Risk of French IPO Firms

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Abstract

This paper examines the association between corporate governance mechanisms of IPO firms and the likelihood of becoming involuntarily delisted from the French market. Based on a sample of 139 French IPOs over the period 1999-2007, including 38 failures, it is concluded that a significant negative association between the likelihood of exchange delisting and the proportion of independent directors, the size of the board, and the quality of audit. Research also finds that the CEO/Chair role duality increases the likelihood of exchange delisting. However, research finds no evidence to suggest that the IPO failure risk declines with the presence of an independent audit committee at the IPO time.

Keywords: Initial public offerings, Corporate governance and involuntary delisting risk.

1. Introduction

There is now a growing body of corporate governance research that has examined the impact of corporate governance mechanisms on the subsequent IPO (Initial Public Offering) performance (Balatbat et al., 2004; Chang et al., 2010). However, there is little, if any focusing on the impact of corporate governance mechanisms on the post-IPO delisting risk and particularly in France, a civil law country characterized by a low index of investor protection (La Porta et al., 2000). Given the high cost associated with involuntary delisting (e.g., see Shumway, 1997; Shumway and Warther, 1999; Macey et al., 2004), understanding the factors associated with this phenomenon becomes an important issue. Examination of IPO firms offers potential for more insightful analysis of corporate governance effects since corporate governance of the firm at listing is likely clearer than at any point in the firm's history (Filatotchev and Wright, 2005). Additionally, the IPO process is characterized by its high level of information asymmetry between managers and investors (Leland & Pyle, 1977) and between informed and uninformed investors (Rock, 1986; Beatty & Ritter, 1986), allowing the use of opportunistic behavior that induce investors in error and have bad effect on corporate performance in the long term (e.g., Chen et al., 2005; DuCharme et al., 2001, 2004; Roosenboom et al., 2003; Teoh et al., 1998). As the ultimate objective of corporate governance is to realize long-term shareholder value and to minimize opportunistic behavior of insiders, it may be expected that IPO firms which adopt best practices in corporate governance will perform better than others and will avoid involuntary delisting. With a sample of French IPOs from 1999 to 2007, we argue and show that the effectiveness of a firm's corporate governance mechanisms at the IPO time, as proxied by the structure of its board of directors and audit quality, is associated with its ability to survive in the French stock exchange. Our results show that corporate governance structures in delisted firms were relatively weak compared to firms remaining active. We find a significant negative association between the likelihood of exchange delisting and the proportion of independent directors, the size of the board, and the quality of audit. We also find that the CEO/Chair role duality increases the likelihood of exchange delisting. However, we find no evidence to suggest that the IPO failure risk declines with the presence of an independent audit committee at the IPO time. These results hold when we control for firm size, age and profitability.

The remainder of this paper is organized as follows. Section 2 provides theoretical background and hypotheses for the study. Section 3 describes the methodology used. Section 4 reports the results of the empirical study, and Section 5 concludes.

2. Literature Review and hypotheses development

Corporate governance mechanisms are generally grouped into two types: internal and external. Precisely we consider board characteristics (independence of board members, board size, CEO/Chair role duality and audit committee presence) as internal mechanisms, and audit as external one.

2.1. Board characteristics

Fama & Jensen (1983) advocate the independence of the board to reduce the likelihood of understanding with managers, hence more effective protection of shareholders' interests. This means that the independent directors contribute to improving the quality of managerial decisions, and thus contribute to improved corporate performance (Beasley, 1996; Dehaene et al., 2001; Klein, 2002 and Raheja, 2005). Mangena and Chamisa (2008) find a significant negative relationship between the proportion of non-executive directors and incidences of listing suspension from the JSE Johannesburg Securities Exchange of South Africa. Charitou et al. (2007) compared 161 firms that were delisted from NYSE between 1998 and 2004 to a set of industry and size-matched control firms. They find evidence that firms with more independent directors are less likely to be delisted. However, Balatbat et al. (2004) did not find a significant relationship between the proportion of outsiders directors in the board and the performance of the IPOs in the long term, more precisely five years after the introduction.

Corporate governance reports (Bouton, 2002; Cadbury, 1992; Viénot, 1995, 1999) recommend firms introduce independent directors to their board. We therefore hypothesize the following:

H1. French IPO firms with more independent board are less likely to be involuntarily delisted from the stock exchange.

The empirical evidence on the relationship between the size of the board and corporate performance do not lead to a clear conclusion. Indeed, some find that larger board will be more bulky with bureaucratic problems, less effective in carrying out their duties and in supervision of opportunistic managers given the lack of coordination and organization. Consistent with empirical findings by Yermack (1996) and Eisenberg et al. (1998), who find an inverse relation between board size and firm performance, and the study of Chang et al. (2010) who find that board size has a negative impact on post-IPO stock returns in China, we expect a positive relation between board size of French IPO firms and involuntary delisting in the long run.

However, other empirical studies find a positive relationship between board size and corporate performance, since a larger board is more likely to have a greater range of expertise to monitor the actions of management effectively (Beasley, 1996; Haniffa and Hudaib, 2006). Consistent with empirical findings by Charitou et al. (2007), who find that board size has a negative impact on involuntary delisting, we expect a negative relation between board size of French IPO firms and involuntary delisting in the long run. These countervailing arguments lead to this hypothesis.

H2. There is a significant relationship between board size of French IPO firms and the likelihood of involuntary delisting from the stock exchange.

According to the agency theory, combining the positions of CEO and chairman constrains the board's oversight and governance role. Indeed, Fama and Jensen (1983) suggest that role duality creates a strong individual power base which could limit the board's ability to execute its duties. However, the absence of duality functions ensures that the decisions taken by the board reflect the opinion of the majority and not the dominant personality (Ghazali, 2010). Thus, the separation of roles should strengthen controls against

the managerial opportunism and lead to better decisions that are in the interest of all shareholders. This is consistent with the results of Chen et al. (2005) and Rahman and Haniffa (2005) who find a significant negative relationship between role duality and firm performance. Hence the following hypothesis;

H3. There is a significant positive relationship between role duality of French IPO firms and the likelihood of involuntary delisting from the stock exchange.

Existence of an independent audit committee within the board has been recommended by governance reports (Bouton, 2002; Cadbury, 1992; Sarbanes-Oxley, 2002; Viénot, 1995, 1999), since it strengthens the role of control and supervision of the board. Several empirical studies have shown that the existence of an independent audit committee enhances financial reporting quality and reduces financial fraud (Dechow et al., 1996; Beasley, 1996; Abbott et al., 2004), earnings management (Klein, 2002; Xie et al., 2003; Bédard et al., 2004; Jaggi and Leung, 2007), and incidences of listing suspension (Mangena and Chamisa, 2008). Thus, we hypothesize the following:

H4. There is a significant negative relationship between the presence of an independent audit committee within the board of directors of French IPO firms and the likelihood of involuntary delisting from the stock exchange.

2.2. Audit quality

For a sample of non-venture-backed microcap IPOs, Weber and Willenborg (2003) find that the pre-IPO opinions of higher quality auditors are more predictive of post-IPO negative stock delisting. This suggests that even in the market for small, non-venture-backed IPOs, Big auditors may screen which clients they audit. Indeed, Michaely and Shaw (1995) find that more prestigious auditors are associated with less risky IPO firms that are less likely to fail. Additionally, Titman and Trueman (1986) suggest that higher quality firms will employ higher quality auditors in order to signal their quality to the market at the time of their IPO. Consistent with empirical findings by Chadha (2003) and Demers and Joos (2007), who find that IPO firms with higher quality auditors are less likely to fail and to delist in the long term, we propose the following hypothesis:

H5. French IPO firms with higher quality auditors are less likely to be involuntarily delisted from the stock exchange.

3. Methodology

3.1. Sample selection and data

The initial obtained sample consists of 390 new firms listed on Euronext Paris during the period 1999 to 2007. We have eliminated foreign firms, financial firms, transferred firms and firms without the necessary data. The final sample is 139 IPO firms (including 38 failures). Accounting data were collected from *Orbis compiled by the Bureau Van Dijk* and *Thomson one Banker* databases. We also used the IPO prospectus to extract corporate governance data at the IPO time. The prospectuses are collected from *Corporatefocus Premium* and *Thomson one Banker* databases. Delisting events (following bankruptcy and liquidation) are obtained from the *ORBIS* and the *Corporatefocus Premium by infinancial* databases.

3.2. Regression model specifications

The dependent variable (*Delist*) of our research is dichotomous and takes the value 1 if a firm involuntary delist from the stock exchange during or before their 5th year subsequent to IPO and 0 otherwise¹.

¹ Delisting due to merger/acquisition during or before their 5th year subsequent to IPO, is not considered as involuntary delisting in our study.

The logistic regression model is therefore appropriate in our analysis. The following regression model is tested in our study:

$$Delist = \beta_0 + \beta_1 Indep_i + \beta_2 Size_i + \beta_3 Dual_i + \beta_4 AuditCom_i + \beta_5 Audit_i + \beta_6 Ln(Tot Act)_i + \beta_7 Ln(1+Age)_i + \beta_8 Prof_i + \varepsilon_i \quad (1)$$

Where; *Indep* = the proportion of independent external directors serving on the board at the time of the IPO; *Size* = the size of the Board of Directors at the time of the IPO; *Dual* = dummy variable equal to 1 when the board chairman and CEO positions are held by one individual at the time of the IPO, and 0 otherwise; *AuditCom* = dummy variable equal to 1 if an audit committee including at least one independent member exists at the time of the IPO, and 0 otherwise; *Audit* = dummy variable equal to 1 if the IPO firm has a Big4 auditor, and 0 otherwise; *Ln(Tot Act)* = the natural logarithm of total assets in the IPO year; *Ln(1+Age)* = the natural logarithm of one plus company age in years; *Prof* = net income divided by total assets in the IPO year; ε_i = error term.

4. Empirical results

4.1. Descriptive statistics and univariate analysis

Table 1 presents descriptive statistics for full sample of 139 French IPOs and separately for continual IPOs (101) and delisted IPOs (38). The mean number of directors on corporate boards is 5.12. Specifically 50% of our sample has a small board, which does not exceed 4 directors. On average, 13.12% of directors are independents. In addition, more than half of our sample has a board of directors without independent member. This shows that the board of directors is not independent enough in the French IPO firms of our sample. 67.63% of the firms exhibit CEO duality and 11.51% of the companies have an independent audit committee at the time of the IPO.

Thus we see that the corporate governance in the French IPO firms of our sample is relatively low due to the lack of independent directors in the board, the significant absence of independent audit committees and the dominance of CEO duality. In fact, in most consulted prospectus, companies admit their intention to improve their corporate governance after the listing, especially in terms of the independence of boards and the existence of independent audit committees. 43.88% of the firms have a Big auditor at the IPO. The average age of French IPO firms is 11.52. Firm size, measured as total assets has a mean value of 156.0661 (€million), while mean profitability, measured as net income divided by total assets, is 0.0321.

Table 1 also includes univariate comparisons between continual IPOs and delisted IPOs. For each variable, we present the differences between the means and medians of delisted and continual IPOs using the independent *t*-test and the Mann-Whitney *U* test, respectively. For discrete variables, differences between proportions are based on the independent test of Chi-2. Despite the poor governance profile of French IPOs, there appear to be significant univariate differences in governance structures across samples. As expected, delisted firms have fewer independent directors compared to firms who remain active after the IPO (Mann-Whitney *U* test, *p*-value = 0.000).

Also, delisted firms have smaller board (Mann-Whitney *U* test, *p*-value = 0.009). Regarding categorical variables, delisted firms are more likely than continual firms to have a combined role of chief executive officer and chairman (Chi-2 test, *p*-value = 0.010). We also observe that continual firms are more likely to have an audit committee presence (Chi-2 test, *p*-value = 0.009) than delisted firms. As expected, the results suggest that delisted firms are less likely to be audited by a larger auditing firm than the continual firms (Chi-2 test, *p*-value = 0.003). Focusing next on the control variables, delisted firms are smaller (Mann-Whitney *U* test, *p*-value = 0.009), younger (Mann-Whitney *U* test, *p*-value = 0.011), and with lower profitability (Mann-Whitney *U* test, *p*-value = 0.000).

Table 1
Descriptive statistics and results of univariate analysis of the two groups (Group of continual firms and Group of delisted firms).

Variables	Groups	Mean/prop	Median	Std. dev.	t-test	z-stat	X ² test
Indep	All firms	Mean = 0.1312	0.000	0.2034			
	Continual firms	Mean = 0.1722	0.000	0.2198	t = 5.839***	z = -4.205***	n/a
	Delisted firms	Mean = 0.0222	0.000	0.0830	p = (0.000)	p = (0.000)	n/a
Size	All firms	Mean = 5.12	4.00	2.317			
	Continual firms	Mean = 5.47	5.00	2.500	t = 3.727***	z = -2.605***	n/a
	Delisted firms	Mean = 4.21	4.00	1.398	p = (0.000)	p = (0.009)	n/a
Dual	All firms	Prop = 0.6763	n/a	n/a			
	Continual firms	Prop = 0.6139	n/a	n/a	n/a	n/a	X ² = 6.570**
	Delisted firms	Prop = 0.8421	n/a	n/a	n/a	n/a	p = (0.010)
AuditCom	All firms	Prop = 0.1151	n/a	n/a			
	Continual firms	Prop = 0.1584	n/a	n/a	n/a	n/a	X ² = 6.803***
	Delisted firms	Prop = 0.0000	n/a	n/a	n/a	n/a	p = (0.009)
Audit	All firms	Prop = 0.4388	n/a	n/a			
	Continual firms	Prop = 0.5148	n/a	n/a	n/a	n/a	X ² = 8.666***
	Delisted firms	Prop = 0.2368	n/a	n/a	n/a	n/a	p = (0.003)
Tot Act (€million)	All firms	Mean = 156.066	24.0611	701.1462			
	Continual firms	Mean = 202.404	26.5812	818.4434	t = 2.074**	z = -2.609***	n/a
	Delisted firms	Mean = 32.9050	14.7576	41.3898	p = (0.041)	p = (0.009)	n/a
Age	All firms	Mean = 11.52	8.00	12.303			
	Continual firms	Mean = 12.55	8.00	12.703	t = 1.629	z = -2.557**	n/a
	Delisted firms	Mean = 8.76	6.00	10.849	p = (0.106)	p = (0.011)	n/a
Prof	All firms	Mean = 0.0321	0.0616	0.1671			
	Continual firms	Mean = 0.0708	0.0774	0.1307	t = 3.930***	z = -4.324***	n/a
	Delisted firms	Mean = -0.0709	0.0115	0.2073	p = (0.000)	p = (0.000)	n/a

The delisted group consists of 38 firms involuntary delisted from the French stock exchange during or before their 5th year subsequent to IPO. *Indep* = the proportion of independent external directors serving on the board at the time of the IPO; *Size* = the size of the Board of Directors at the time of the IPO; *Dual* = dummy variable equal to 1 when the board chairman and CEO positions are held by one individual at the time of the IPO, and 0 otherwise; *AuditCom* = dummy variable equal to 1 if an audit committee including at least one independent member exists at the time of the IPO, and 0 otherwise; *Audit* = dummy variable equal

to 1 if the IPO firm has a Big4 auditor, and 0 otherwise; *Tot Act* (€ million) = total assets in the IPO year; *Age* (in years) = the number of years between incorporation and the IPO date; *Prof* = net income divided by total assets in the IPO year. The differences between the means and medians of firms that have managed earnings the least and firms which have managed them the most are based on the independent *t*-test and the Mann-Whitney *U* test, respectively. For discrete variables, the differences between proportions are based on the independent test of Chi-2. *, **, *** denote significantly different from zero at the 0.10, 0.05 and 0.01 levels, respectively.

4.2. Results of logistic-regression analysis

4.2.1. Correlation matrix and multicollinearity

Applying logistic regression requires the absence of multicollinearity between independent variables. To identify potential problems of multicollinearity among the eight independent variables, we established a correlation matrix (see Table 2). The results reveal several significant relationships ($p < 0.05$) among the independent variables. Although the correlations are significant, all are below 0.8 which is the limit at which we begin to have a serious problem of multicollinearity. Additionally, we also compute and examine the variance inflation factors (VIFs), which also tests for the presence of collinearity between the explanatory variables. We note that the highest VIF is equal to 1.857. Consequently VIF are below 10 which is the limit at which we begin to have a serious problem of multicollinearity. Thus, we can assume the absence of any multicollinearity problems.

Table 2
Pearson correlation coefficients between independent variables of model (1) N = 139

	Size	Indep	Dual	AuditCom	Audit	Ln (Tot Act)	Ln (1+Age)	Prof
Size	1							
Indep	0.439**	1						
Dual	-0.216*	-0.291**	1					
AuditCom	0.430**	0.504**	-0.280**	1				
Audit	0.430**	0.296**	-0.194*	0.317**	1			
Ln (Tot Act)	0.596**	0.308**	-0.174*	0.472**	0.457**	1		
Ln (1+Age)	0.002	0.071	-0.118	0.065	-0.117	0.055	1	
Prof	-0.079	0.058	0.080	0.013	-0.027	0.047	0.163	1

Indep = the proportion of independent external directors serving on the board at the time of the IPO; *Size* = the size of the Board of Directors at the time of the IPO; *Dual* = dummy variable equal to 1 when the board chairman and CEO positions are held by one individual at the time of the IPO, and 0 otherwise; *Audit Com* = dummy variable equal to 1 if an audit committee including at least one independent member exists at the time of the IPO, and 0 otherwise; *Audit* = dummy variable equal to 1 if the IPO firm has a Big4 auditor, and 0 otherwise; *Tot Act* (€ million) = total assets in the IPO year; *Age* (in years) = the number of years between incorporation and the IPO date; *Prof* = net income divided by total assets in the IPO year.

** the correlation is significant at the 1% level (bilateral).

* the correlation is significant at the 5% level (bilateral).

4.2.2. Regression-analyses results

Table 3 presents the results of the logistic regression analyses of the relationship between incidences of delisting from the French Market and corporate governance mechanisms. In this table, the reported Hosmer-Lemes how goodness-of-fit statistic is insignificant for our first model, suggesting that this model

fits the data well². The Nagelkerke R^2 indicates that 47.20% of the probability of belonging to the group that involuntarily delisted from the French Market, is explained by the eight variables in the model (1).

As expected, a higher proportion of independent outside directors serving on the board is associated with a significantly lower likelihood of failure during or before their 5th year subsequent to IPO, as captured by the negative (-4.343) and significant (at the 0.10 level, $p = 0.070$) coefficient on *Indep* in Table 3. Thus, consistent with our first hypothesis, French IPO firms with more independent board are less likely to be involuntarily delisted from the stock exchange.

Our results indicate that role duality (*Dual*) is significantly (at the 0.10 level, $p = 0.076$) and positively associated with the likelihood of failure, thus accepting H3. This is consistent with Chen et al. (2005) and Rahman and Haniffa (2005) who find a significant negative relationship between role duality and firm performance. Hence, French IPO firms with role duality are more likely to be involuntarily delisted from the stock exchange.

According to the hypothesis H5, Table 3 shows a negative and significant influence of external audit quality on reducing the likelihood of failure and delisting. Indeed, the coefficient of this variable is negative (-1.051) and significant at the 10% level ($p = 0.071$). Consistent with empirical findings by Chadha (2003) and Demers and Joos (2007), IPO firms with higher quality auditors are less likely to fail and to delist in the long term since higher quality auditors are more predictive of post-IPO negative stock delisting (Weber and Willenborg, 2003).

As opposed to this, hypotheses H2 and H4, board size (*Size*) and the existence of an independent audit committee (*AuditCom*) are variables that do not appear to have any significant effect on the likelihood of failure and delisting, although univariate analysis showed a negative and significant influence of these variables. Although the analyses in Section 4.2.1 suggest that the correlations among the independent variables are within suggested bounds, we feel significant relationships ($p < 0.05$) among governance variables. Consequently, we re-estimate our regressions by including these variables in separate models (see regression 2, 3, 4, 5 and 6). The results of this analysis show that the variables *Indep*, *Dual* and *Audit* become more significantly associated with the likelihood of failure and delisting (at the 1%, 5% and 5% levels, respectively), and the variable board size (*Size*) become significant. According to the hypothesis H2, Table 3 shows, through the model (3), a negative and significant influence of the board size on the likelihood of failure. According to this table, the coefficient of this variable remain negative (-0.369), but become significant at the 5% level ($p = 0.021$). Consistent with empirical findings by Charitou et al. (2007), board size has a negative impact on involuntary delisting since a larger board is more likely to have a greater range of expertise to monitor the actions of management effectively (Beasley, 1996; Haniffa and Hudaib, 2006).

However, the results of this analysis show that the relationship between *AuditCom* and delisting remain not significant, and thus our hypothesis H4 is not supported. But, the estimated coefficient remains negative and thus consistent with our prediction. In fact, our results suggest the existence of an independent audit committee does not influence significantly the likelihood of delisting given the low proportion of firms having good corporate governance and an independent audit committee at the IPO time (11.51%).

Overall, the three control variables *Ln(Tot Act)*, *Ln(1+Age)* and *Prof* are also significant in explaining the involuntary delisting risk. The finding of significant negative coefficients for company size, age, and profitability is consistent with the intuition that smaller, younger and less profitable IPO firms are more likely to fail.

Table 3

Logistic regressions on the relation between corporate governance mechanisms at the IPO time with the likelihood of becoming involuntary delisted from French market.

² The Hosmer-Lemeshow statistic is distributed chi-square, and small p-values for the statistic indicate a lack of model fit.

Variables	Exp sign	Model (1)	Model (2)	Model (3)	Model (4)	Model (5)	Model (6)
Constant	/	2.327 (0.979)	4.158** (3.875)	4.582** (5.025)	3.887* (3.324)	4.467** (4.671)	4.539** (4.544)
Indep	-	-4.343* (3.290)	-5.991*** (6.955)				
Size	+/-	-0.112 (0.396)		-0.369** (5.288)			
Dual	+	1.102* (3.155)			1.417** (5.966)		
AuditCom	-	-17.600 (0.000)				-19.746 (0.000)	
Audit	-	-1.051* (3.256)					-1.361** (6.319)
Ln (Tot Act)	-	-0.109 (0.229)	-0.323* (2.923)	-0.226 (1.255)	-0.445** (5.869)	-0.380** (4.235)	-0.317 (2.618)
Ln (1+Age)	-	-0.753** (4.256)	-0.611* (3.206)	-0.671** (4.013)	-0.610* (3.115)	-0.641* (3.704)	-0.804** (5.328)
Prof	-	-6.030*** (10.135)	-5.136*** (9.272)	-5.735*** (12.332)	-5.674*** (11.479)	-5.210*** (10.743)	-5.342*** (11.534)
Nagelkerke R ²		47.20%	39.90%	35.00%	35.40%	34.70%	35.40%
Hosmer- Lemeshow X ²		3.520	5.756	1.699	11.663	7.132	7.770
Hosmer- Lemeshow p- val		0.898	0.675	0.989	0.167	0.522	0.456

This table reports the results from logistic regressions linking corporate governance mechanisms at the IPO time with the likelihood of involuntary delisting from the French market. The sample consists of 139 IPOs between 1999 and 2007, including 38 failures following bankruptcy and liquidation. The dependent variable is a dummy variable equal to one if the firm failed during or before their 5th year subsequent to IPO, 0 otherwise. The Nagelkerke R² and Hosmer-Lemeshow statistic are goodness of fit measures. *Indep* = the proportion of independent external directors serving on the board at the time of the IPO; *Size* = the size of the Board of Directors at the time of the IPO; *Dual* = dummy variable equal to 1 when the board chairman and CEO positions are held by one individual at the time of the IPO, and 0 otherwise; *AuditCom* = dummy variable equal to 1 if an audit committee including at least one independent member exists at the time of the IPO, and 0 otherwise; *Audit* = dummy variable equal to 1 if the IPO firm has a Big4 auditor, and 0 otherwise; *Ln (Tot Act)* = the natural logarithm of total assets in the IPO year; *Ln (1+Age)* = the natural logarithm of one plus company age in years; *Prof* = net income divided by total assets in the IPO year. *, **, *** denote significantly different from zero at the 0.10, 0.05 and 0.01 levels, respectively.

5. Conclusion

While a large body of research examines different aspects of the post-IPO stock return performance and failure of new listings, little has been documented regarding the impact of corporate governance mechanisms of IPO firms on their likelihood of involuntary delisting from the stock exchange. We contribute to each of the IPO, corporate governance and failure prediction literatures by developing an IPO

failure prediction model that includes corporate governance mechanisms and other IPO characteristics. Precisely, we examine whether the effectiveness of corporate governance mechanisms of IPO firm, as proxied by the structure of its board of directors and audit quality, is a primary determinant of its ability to survive in the French market. Despite the weak governance observed in French IPO firms, at least in regard to our sample, our results show that corporate governance structures in delisted firms were relatively weaker compared to firms remaining active. We find a significant negative association between the likelihood of exchange delisting and the proportion of independent directors, the size of the board, and the quality of audit. We also find that the CEO/Chair role duality increases the likelihood of exchange delisting. However, we find no evidence to suggest that the IPO failure risk declines with the presence of an independent audit committee at the IPO time. Our results should be useful to managers, investors and stock exchange regulators since the study provides insight into the corporate governance mechanisms of an IPO firm limiting the risk of failure and involuntary delisting subsequently.

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