

The life cycle of listed companies: a survival analysis

Abstract

Companies may suffer financial distress after going public while in severe conditions, the listing of its stocks shall be suspended or terminated which may bring huge losses to investors and creditors. In the Chinese securities market, regulators have implemented strict delisting rules as part of a regular delisting mechanism, and the delisting risk of listed companies has become increasingly prominent in recent years. More than 1% of listed companies were eliminated from the stock market every year between 2021 and 2024. A company in distress may receive special treatment (ST) as an indicator of delisting risk for investors. In previous financial distress prediction studies, ST is used as the label of financial distress for Chinese listed companies. However financial distress is only the transitory stage to delisting. In this research we illustrate the life cycle of listed companies using a survival analysis framework, which covers the whole journey from listing to delisting and captures the changes of financial conditions. We observe 3,800 Chinese listed companies for over 20 years. Survival analysis can not only describe the path from listing to distress but also the experience from distress to delisting. Financial ratios and financial misconduct behaviours are found to be powerful predictors of the delisting risk for listed companies. This study provides insights for regulators in maintaining the stability of the stock market.

Authors & Affiliations

Professor Zhiyong Li¹, Professor Fanyin Zhou¹, Mr Jiaxuan Zhang¹

¹Southwestern University of Finance and Economics, Chengdu, China