Global Finance Journal 24 (2013) 69–84

Contents lists available at SciVerse ScienceDirect

Global Finance Journal

journal homepage: www.elsevier.com/locate/gfj

An empirical study of multiple direct international listings

Leyuan You [a,*], Brian M. Lucey [b,1], Yan Shu [c,2]

[a] Texas State University-San Marcos, TX, United States
[b] Trinity College Dublin, College Green, Dublin 2, Ireland, United Kingdom
[c] Research Institute of Economics and Management, Southwestern University of Finance and Economics, 55 Guanghuacun Street, Chengdu, Sichuan 610074, PR China

ARTICLE INFO

Article history:
Accepted 18 February 2013
Available online 21 March 2013

JEL classification:
G14
G15
G30

Keywords:
Multiple listing
Bonding hypothesis
Event study

ABSTRACT

In this study, we examine the multiple direct foreign-listing by analyzing characteristics of listing firms as well as hosting and home countries. Our results show that listing premium increases over time, but this premium diminishes as the firm lists in additional foreign markets. Multiple listing is closely related to the firm's ability to list, but does not translate into better future or higher returns. Additionally, we find no evidence to support the bonding hypothesis. We conclude that firms list in additional foreign countries to take advantage of higher valuation to raise capital more cheaply, rather than to benefit from a better legal environment.

Published by Elsevier Inc.

1. Introduction

The growth of international integration among world capital markets since the 1970s has been driven in part by the phenomenon of corporations seeking additional listings for their shares and corporate bonds in countries other than their own. The proliferation of literature on the international listing phenomenon since the 1970s shows mostly positive effects of cross-listings in a foreign country. Early studies argue that cross-listing enables companies to reduce their cost of capital, increase the liquidity of their securities, reduce trading friction, increase visibility, and facilitate information flow (Alexander, Eun, & Janakiramanan, 1988; Baker, Nofsinger, & Weaver, 2002; Errunza & Losq, 1985; Foerster & Karolyi, 1993; Jayaraman, Shastri, & Tandon, 1993; Merton, 1987). More recent studies investigate international listings from the perspective of how they impact corporate governance (Doidge, 2004; Doidge, Karolyi, & Stulz, 2004; La Porta, Lopez-de-Silanes, Shleifer, & Vishny, 1997,

* Corresponding author at: Department of Finance and Economics, 601 University Dr., San Marcos, TX 78666, United States. Tel.: +1 512 245 3215; fax: +1 512 245 3089.
E-mail addresses: ly17@txstate.edu (L. You), blucey@tcd.ie (B.M. Lucey), shuyan@swufe.edu.cn (Y. Shu).
[1] Tel.: +353 1 8961552.
[2] Tel.: +86 28 87099163.

1044-0283/$ – see front matter. Published by Elsevier Inc.
http://dx.doi.org/10.1016/j.gfj.2013.03.004

1998). Despite the fact that quite a number of companies list sequentially in multiple overseas markets, the preponderance of research on foreign listings focuses on stocks listed in two countries (dual listing). According to Sarkissian and Schill (2004), about 20% of internationally listed stocks are listed in more than one foreign market. For example, DataStream shows that Bayer alone is listed in 11 countries. With multiple internationally listed stocks, studying only one foreign listing may represent an incomplete analysis of foreign listings. Additionally, most previous studies on cross-listing focus on listings in one highly developed country, such as the US. Karolyi (2006) points out this bias in understudying world listings. The purpose of this study is to remedy these issues by examining stocks directly listed in multiple markets.[3]This approach enables us to examine many issues involved in foreign listing from perspectives that have not been studied previously.

More specifically, we strive to answer the following questions. Given the benefits firms receive from dual listing, why might a firm list subsequently in additional markets? What types of firms tend to list in additional foreign markets? What are the consequences of sequential, multiple cross-listings for investors? What types of listing countries are favored by investors? We strive to provide some preliminary answers to these questions in this paper.

After collecting a sample of multiple-listed stocks from DataStream, we examined firm-level data to understand the determinants and effects of multiple listings.[4] Our analysis of firm characteristics around first, second, and third foreign listings show that large firms with high returns tend to list in more foreign markets, and firms appear to become larger and more highly valued with each additional listing. Other issues are not as clear cut. While leverage and valuation increase, received returns decrease on a second listing, and this is reversed for a third listing.

We also report the multiple listing consequences for investors in terms of stock price. We find a generally positive cross-listing effect on stock prices: i.e., a positive listing premium. This premium has been increasing in recent years, but it decreases as the firm list in additional foreign markets. We then examine country characteristics to identify which countries investors perceive as favorable and test a recent major hypothesis (bonding hypothesis) related to overseas listing.[5] Overall, we find that listing premiums of different orders relate to different country characteristics. In contrast to previous findings, our results do not provide evidence supporting the bonding hypothesis. We conclude that firms listing in multiple foreign markets may do so not benefit from better investor protection in a better legal environment, but to take advantage of higher valuations to raise capital more cheaply.

In addition to complementing the foreign listing studies by examining multiply listed stocks from various markets, this study also makes several other contributions, including an analysis of how investor behavior leads to stock price reactions to foreign listings, as well as an examination of the impact of rule of law and economic freedom and culture on foreign listings.

2. Literature review and hypothesis development

In this section we set our hypotheses and review the literature related to cross-listings.

Our first set of hypotheses examines the relationship between firm characteristics and foreign listings, which is also related to the motivation for listing in a foreign country. Many hypotheses have been posited to explain the cross-listing phenomenon. The most cited reason for foreign listing is that the firm needs more equity capital for new investment because it is fast growing or has low debt capacity. Thus, such a firm should have a high price-to-earnings ratio (P/E) and a high debt-to-equity ratio (D/E). Some argue that large firms and those with higher returns can better bear the often costly expenses of listing in foreign countries and therefore have easier access to foreign markets for raising capital. Thus, our first set of hypotheses is provided as follows:

Hypothesis 1a. Firms with high debt ratios tend to list in more foreign markets.

Hypothesis 1b. Firms with high P/E ratios tend to list in additional foreign markets.

[3] We study only direct listings so that they are more comparable across different markets.

[4] We ignore any higher-order listing because there are few observations for such cases. For example, we find 40 stocks listed in 5 markets and 10 stocks listed in 6 markets.

[5] The market segmentation and bonding hypotheses are the two major hypotheses that relate country characteristics to foreign listings. We focus on the bonding hypothesis because Doidge et al. (2009a, 2009b) argued that the alternative hypothesis of market segmentation is losing its relevance with globalization.