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Do multiple foreign listings create value for firms?

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ABSTRACT

In this paper, we study whether firms benefit from listing in multiple foreign markets. Employing a global sample of multiple-listed firms, we compare Tobin's q for firms cross-listed in one versus two or more markets. Our univariate analysis does not find a cross-listing premium; however, firms that are from/cross-list in certain markets do receive higher valuations. A multivariate analysis shows a multiple-listing effect that is robust to controlling for firm and country-level characteristics as well as self-selection bias. Furthermore, we find strong support for the market segmentation and bonding hypotheses, and weak support for the liquidity hypothesis.

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1. Introduction

Previous finance literature offers considerable research on the benefits of foreign listing with most studies reporting significant advantages of cross-listing in foreign markets. By cross-listing in a foreign market, firms can circumvent investment barriers in order to have access to foreign capital markets; thus, they may raise new equity at a lower cost of capital, increase their shareholder base and stock liquidity, and add visibility, exposure, and prestige to their company (for example, see [Ayyagari & Doidge, 2010](#); [Foerster & Karolyi, 1993](#); [Hail & Leuz, 2009](#); [Lel & Miller, 2008](#); [Miller, 1999](#); [Sarkissian & Schill, 2004](#)). Compared to the benefits, cross-listing costs such as listing fees and compliance fees are fairly small ([Doidge, Karolyi, & Stulz, 2004](#)).

Almost all of the previous cross-listing studies focus on stocks cross-listed in the U.S. and the U.K. markets, yet many firms cross-list in other parts of world.¹ What's more, according to [Sarkissian and Schill \(2004\)](#), about 20 percent of internationally listed stocks are listed in more than one foreign market. For example, DataS-

treem shows that Bayer alone was listed in 11 countries. Although several studies examine multiple-listing in limited ways,² there is still a lack of scholarship focused on whether additional overseas listings, on average, translate to more value for firms. In addition, past research examining the cross-listing effect invariably compares cross-listed firms to domestic firms from the same markets. The inherent problem with this approach is that cross-listed firms might not be comparable to these domestic firms in non-measurable ways such as prestige, international exposure, brand name, and quality of management, among others. In this paper, we strive to extend the literature by studying multiple international listings to alleviate the previous non-matching issue by comparing cross-listed firms to a more comparable group: firms cross-listed then delisted in foreign markets and firms cross-traded in foreign markets.³

More specifically, this study aims to answer the following questions: (1) Do firms gain more value if they cross-list in more countries, specifically in countries other than the U.S. and U.K.?

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¹ A few studies examine cross-listing in multiple countries; for example, [Dodd and Louca \(2012\)](#) examine cross-listing in the U.S., U.K., and within Europe and report positive listing premiums for the U.S. and U.K. market but not for the European markets. [You et al. \(2012\)](#) also report similar results using a sample of global cross-listings.

² For example, [Hauser, Tanchuma, and Yaari \(1998\)](#) examine the information transfer between five firms that are listed in multiple markets. [Saudagaran and Biddle \(1995\)](#) study the factors that influence firms' choice of foreign market.

³ The difference between cross-listing and cross-trading is as follows: cross-listing is initiated by the listing firm, and the listing firm needs to meet listing requirements posted by hosting exchanges. The listing firm receives new equity funds when they issue/list new stocks in foreign markets. Cross-trading is simply trading in foreign markets, which is often initiated by the hosting exchanges without involving the firm.

(2) Can the benefit of multiple-listing be explained by existing theories? Examining these questions could potentially shed light on how value is created from cross-listing while enhancing our knowledge of the determinants of asset pricing. Employing a comprehensive data set of cross-listed stocks as of 2010,⁴ we use Tobin's q as a measure of firm value and compare Tobin's q for firms listed in foreign or multiple foreign countries (sample firms) to firms cross-listed then delisted from foreign markets or firms traded in foreign markets (control firms). The firms in our control group are more comparable to our sample cross-listed firms in terms of size, liquidity, prestige, international exposure, and international sales. We also compare firms cross-listed in one versus those cross-listed in two versus in three foreign markets, and so on, while most previous studies only compare cross-listed firms in the U.S. or U.K. to non-cross-listed firms. Thus, our comparison provides more direct evidence concerning the benefits of cross-listing as a whole as well as the benefits of multiple cross-listings in particular, rather than providing the advantages of listing in countries with large, well-known exchanges only. We also examine several hypotheses related to foreign listings by relating post-listing valuation to characteristics of home and listing markets to check if the multiple-listing premiums can be explained by these theories. Our paper is related to [Doidge et al. \(2004\)](#) in that they investigate the difference in Tobin's q between foreign firms listed on U.S. exchanges and non-cross-listed firms from the same country.

Our univariate analysis shows that the average Tobin's q of cross-listed firms is not higher than that of non-cross-listed firms; the average does not increase as the number of listing markets increases. Further analysis shows that listings in/from certain markets, such as the U.S. or other common-law countries do have higher firm values than otherwise listed (or homed) firms. After we control for self-selection bias as well as firm-level and country-level characteristics, our multivariate analysis shows a positive effect to multiple cross-listing. We find support for the market segmentation and bonding hypotheses as the benefits of cross-listing can be explained by these theories. We also find weak support for the liquidity hypothesis.

We contribute to the literature in several ways. First, unlike previous studies that compare cross-listed firms to domestic firms, our control sample is comprised of firms cross-listed then delisted from foreign markets and firms traded in foreign markets. Second, most previous studies focus on cross-listings in the U.S. and U.K. markets whereas we examine cross-listed stocks in various parts of the world. Third, we extend previous studies ([Roosenboom & van Dijk, 2009](#); [You, Parhizgari, & Srivastava, 2012](#)) to examine multiple cross-listings instead of dual cross-listings and provide support for the market segmentation, liquidity, and bonding hypotheses for multiple cross-listings.

The paper is structured as follows: the next section reviews literature and proposes hypotheses; section three presents data and methodology, and section four analyzes the results, while the last section concludes the paper.

2. Literature review, hypotheses development, and variable description

Much of the existing literature ([Ayyagari & Doidge, 2010](#); [Doidge et al., 2004](#); [Foerster & Karolyi, 1993](#); [Hail & Leuz, 2009](#); [Lel & Miller, 2008](#); [Miller, 1999](#); [Sarkissian & Schill, 2004](#)) argues that firms benefit from cross-listing in foreign markets. The benefits

⁴ Time series analysis would help gain more understanding of the cross-listing issue; however, data containing a time series of cross-listing around the world is not available. DataStream and WorldScope only have static information on cross-listings.

include the following: firms can raise new equity at a lower cost when they cross-list in more efficient equity markets, therefore effectively reducing cost of capital; cross-listing can bypass market segmentation by accessing capital in other markets and enabling investors to invest in the hosting foreign firms (market segmentation theory); firms can increase their liquidity when they are cross-listed in more liquid markets (liquidity theory); and cross-listed firms are able to provide better investor protection when they bond themselves to the more stringent listing market's regulations and requirements (the bonding hypothesis).⁵ Of all the hypotheses proposed to explain cross-listing premiums, the market segmentation and investor protection hypotheses have been well-studied with most of the studies providing support for these theories. Almost all of these studies focus on firms cross-listed in the U.S. or the U.K. (See, for example, [Doidge et al., 2004](#); [Lel & Miller, 2008](#); [Pagano, Röell, & Zechner, 2002](#)). Since previous studies focus on firms listed in one foreign market only (usually the U.S. or U.K.), they are only able to look at the difference between the country level variables of the home country and that of a particular hosting country rather than across different home and hosting markets. We continue these investigations and extend the question to multiple cross-listings in other countries as well as the U.S. or the U.K.

Market segmentation hypothesis asserts that regulatory restrictions, costs, and information problems between markets represent barriers between markets. Cross-listing stocks in different markets circumvents these barriers and facilitates equity investing among international markets. If the segmentation hypothesis holds and if cross-listing breaks down barriers between markets, we should observe that the greater the number of countries in which a firm lists, the greater the benefit it enjoys, which means more overseas listings should lead to better valuation from investors. We assert that cross-listed firms should have higher firm values than non-cross-listed firms, and firms that engage in multiple country cross-listings should have higher firm values than those that only engage in dual country cross-listings. Hence, Hypothesis 1A is given as follows:

Hypothesis 1A. On average, a firm's valuation increases as the number of overseas listings increases.

In addition, when a firm cross-lists in a market with more development and better liquidity, we expect the firm's valuation to increase as it circumvents market barriers to enjoy a more efficient market. Therefore,

Hypothesis 1B. A firm's valuation is positively related to the difference between the listing markets' development (market segmentation hypothesis) and liquidity (liquidity hypothesis) and that of the home market.

Following [Salva \(2003\)](#), [Djankov, La Porta, Lopez-de-Silanes, and Shleifer \(2008\)](#) (DLS), we use the stock market capitalization to GDP, listed firms per million population, and ownership concentration as measures of the stock market development. Following [La Porta, Lopez-de-Silanes, Shleifer, and Vishny \(LLSV\) \(1998\)](#) and [Doidge et al. \(2004\)](#), we also use per capita GDP and Capital Access Index from the Milken Institute. The liquidity measure is calculated as the total value of shares traded divided by the market capitalization measures as published by the World Bank.

The other major hypothesis in explaining the cross-listing premium is the investor protection or bonding hypothesis. This hypothesis argues that by listing their shares in a market that pro-

⁵ There are other hypotheses related to cross-listing; for example, [Dodd and Gilbert \(2016\)](#) find improvement in the firm's information environment and stock price efficiency in their home market after cross-listing, thus further supporting the benefit of cross-listing.

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