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Competition of trading volume among markets: Evidence from stocks with multiple cross-listing destinations



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ABSTRACT

In constructing a comprehensive dataset of firms simultaneously cross-listed on multiple foreign markets between 1990 and 2012, we document the cross-sectional and chronological distribution of the trading volume of global cross-listings and examine the dynamics of competition for order flows among rival host markets. Our sample includes a total of 1118 cross-listings. Among them, 304 equity issues are cross-listed on multiple host markets. We find that host markets are more successful in attracting order flows from rival hosts markets when they have lower trading cost, better legal protection for investors, higher market liquidity, more advanced financial development, English common law origin, and firms with longer listing history. Surprisingly, information-based variables such as information factor and time zone difference have minimal impact on the distribution of order flows.

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1. Introduction

Over the last few decades, there has been a substantial increase in the number of global cross-listings as well as home and host markets. Many firms cross-list their shares on multiple foreign markets in order to gain credibility and visibility and to facilitate marketing (Doidge et al., 2009).

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Some firms have delisted their shares from abroad (You et al., 2012). Previous studies (See, for example, Sarkissian and Schill, 2009; Wang and Zhou, 2014) have excluded such delisted firms from their samples largely due to the lack of a historical record of cross-listings. Our study fills the gap by constructing a comprehensive dataset of firms that list their shares on both domestic and foreign stock exchanges. Our sample is constructed directly from Datastream and consists of 1118 cross-listings in 50 host countries over the period between 1990 and 2012. Among them, there are 340 cross-listings listed on two or more stock exchanges. This subset of multiple cross-listings offers a unique opportunity to chronologize the distribution of such listings and to examine the dynamics of market competitiveness in attracting order flows among rival foreign markets, which has largely been ignored by the literature.

Specifically, we examine the importance of various market- and firm-level factors, suggested by Baruch et al. (2007), Eun and Sabherwal (2003), Su and Chong (2007), and Wang and Zhou (2014), in determining the distribution of trading volume among rival host markets. We find robust evidence that trading cost, firm age, host market legal protection, information disclosure, financial development, market liquidity, and legal origin consistently play a vital role in a host market's ability to attract order flows from rival host markets. More specifically, host markets are better positioned to attract order flows from rival host markets when they have lower trading cost, foreign firms with a longer listing history, better legal protection and information disclosure, higher market liquidity and a more advanced financial market. Interestingly, we consistently find that host countries with English common law origin attract more trading volume while host countries with French civil law origin attract significantly lower trading volume. Moreover, we find minimal evidence that information-based variables have a significant impact on the distribution of order flows.

Our study contributes to the literature in three ways. First, we construct a comprehensive dataset of global cross-listings directly from Datastream. With few exceptions, previous studies have largely examined firms that cross-list in one market only (See, for example, Baruch et al., 2007). Studies that have constructed a dataset of global cross-listings mostly collected the listings from stock exchanges (See, for example, Sarkissian and Schill, 2009; Wang and Zhou, 2014). One limitation of such an approach is that most stock exchanges do not provide a complete list of historical listings but a snapshot of listings at a particular point in time, such as the end of calendar year 2012. Thus, datasets used in previous studies usually do not include delisted, merged or other firms that no longer actively listed on a market at the time the dataset is constructed. Moreover, most stock exchanges provide limited information about a firm, such as company name and stock ticker. Many firms change name or registration location during the listing's duration. The incomplete information provided by stock exchanges makes it difficult to match firms in research databases such as Datastream. We employ an innovative approach to identify cross-listings directly from Datastream; thus, our dataset is comprehensive and free from potential biases caused by the above-mentioned limitations.

Second, to the best of our knowledge, we are the first to examine trading volume distribution among rival host markets. Our main analysis focuses on firms with multiple cross-listings, which allows us to examine competition among host markets and to identify factors that influence the competitiveness of the host market in attracting order flows from rival host markets. We conduct a comprehensive analysis and present robust results on the relative importance of firm- and market-level characteristics in determining market competitiveness. Our results are robust to different regression methods, variable measurements and subsamples.

Third, our findings have both important academic and practical implications. Investors may find our results useful in guiding them to place orders at markets with the most market liquidity, lower transaction cost and better shareholder protection, and therefore lower the liquidity and trading cost, reduce the global trading risk, ensure the feasibility of investors' trading strategies, and help them construct globally diversified portfolios (See, for example, Baruch et al., 2007). Regulators and policymakers may adjust policies and improve market soundness in order to make a country's stock market more competitive in attracting order flows and foreign cross-listings and therefore enhance the development of domestic financial markets (See, for example, Hargis and Ramanlal, 1998; Halling et al., 2008).

The remainder of the paper proceeds as follows: Section 2 details variable construction. Section 3 describes the hypotheses and sampling process and documents the distribution of foreign

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