



# Choice of foreign listing location: Experience of Chinese firms

Ting Yang<sup>a,\*</sup>, Sie Ting Lau<sup>b</sup>

<sup>a</sup> Faculty of Business, Auckland University of Technology, Private Bag 92006, Auckland 1020, New Zealand

<sup>b</sup> Division of Banking and Finance, Nanyang Technological University, S3-01A-19 Nanyang Avenue, Singapore 639798

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## Abstract

At the end of October 2003, there were 237 Chinese firms' listings on various stock exchanges outside of Mainland China. Beyond geographical proximity and other obvious explanations of why Chinese firms prefer listing in Hong Kong more than in the United States, we identify two additional benefits of a Hong Kong listing. We find that Chinese firms listed in Hong Kong have a better information environment than those listed solely in the United States. We also find that the Hong Kong-listed firms are less financially constrained, which may be due to their ability to access the Hong Kong capital market for external financing. The results of our study show that different stock markets offer different benefits as a listing venue and the benefits of foreign listing may depend on the choice of listing location.

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## 1. Introduction

Academics have identified a host of reasons to explain why some firms list their stocks on a foreign exchange, which include hypotheses relating to investor recognition, access to capital, protection of minority shareholders, visibility, and improvement in the information environment. Foerster and Karolyi (1999) investigate 153 foreign companies that list their shares in the U.S. and find the abnormal returns around such listings to be consistent with improvement in investor recognition (an average increase of 28.8% in shareholder base) as well as the greater liquidity

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\* Corresponding author. Tel.: +64 9 921 9999x5397; fax: +64 9 921 9629.

E-mail addresses: [ting.yang@aut.ac.nz](mailto:ting.yang@aut.ac.nz) (T. Yang), [astlau@ntu.edu.sg](mailto:astlau@ntu.edu.sg) (S.T. Lau).

these firms achieve upon their listing in the U.S. [Lins et al. \(2005\)](#) find that following a U.S. listing, the sensitivity of investment to cash flow decreases significantly for firms from emerging markets, but does not change for firms from developed markets. This supports the argument that access to external capital markets is also an important benefit of foreign listings. Another set of literature views foreign listings as a means to raise capital despite majority shareholders having to give up some private benefits of control. [Reese and Weisbach \(2002\)](#) examine the relationship between cross-listing, shareholder protection, and subsequent equity offering. They find that firms from countries with weak shareholder protection are willing to cross-list and hence give up some private benefits of control (by having to abide by stringent U.S. securities laws) because of the need to raise equity capital. [Doidge et al. \(2004\)](#) find that the Tobin's  $q$  of foreign firms listed in the U.S. is 16.5% higher than non-cross-listed firms from the same country. Therefore, firms with growth opportunities that cannot be funded internally will choose to cross-list in the U.S. because the benefit (ability to get external financing) is greater than cost (reduction in private benefits of control). In addition, [Doidge \(2004\)](#) finds that among non-U.S. firms with dual classes of high-voting and low-voting shares, those listed on a U.S. exchange have voting premiums (proxy for private benefits of control) that are 43% lower than those not listed in the U.S. This indicates that U.S. cross-listing decreases the private benefits of control and increases the protection afforded to minority shareholders. Recently, some researchers argue that foreign listings improve firms' information environment and visibility. [Baker et al. \(2002\)](#) show that international firms listing on the New York Stock Exchange (NYSE) or London Stock Exchange (LSE) enjoy a significant increase in visibility, which is proxied by analyst coverage and print media attention. [Lang et al. \(2003\)](#) find that non-US firms listed on a U.S. exchange have greater analyst coverage and increased forecast accuracy than firms not listed in the U.S., and they attribute this to a better information environment.

Although foreign listings in general bring about beneficial effects, recent studies seem to indicate that the choice of listing location is also important. [Froot and Dabora \(1999\)](#) document that for twin companies whose charter fixes the division of cash flows to each twin, and hence whose stock prices should move in a fixed ratio determined by the proportional division of cash flows, their prices show persistent and large deviations from the ratio of cash flow. A twin's relative price is more highly correlated with the stock market index of the country where it is traded most actively. This evidence suggests that location of trade matters for the pricing of stocks. Similarly, [Chan et al. \(2003\)](#) find that Jardine stocks, which delisted from Hong Kong and moved their trading to Singapore, correlated less (more) with the Hong Kong (Singapore) market after delisting, though their main business location remained in Hong Kong. [Lau and McNish \(2003\)](#) find that individual firm trading volume is most closely associated with the market where the stocks are traded, and firms that switch their primary listing locations can expect the trading characteristics of their shares to become similar to those of the new market. [Pagano et al. \(2002\)](#) examine the aggregate trends in foreign listings. They find that high-tech and export-oriented European companies that expand rapidly without significant leveraging choose the U.S. as their foreign listing location, while European companies that do not grow unusually fast and increase leverage after cross-listing prefer a foreign listing location within Europe. [Blass and Yafeh \(2001\)](#) find that young and high-tech oriented Israeli firms choose the U.S. rather than domestic exchanges as their listing location. These findings suggest that different stock markets are expected to offer different benefits as a listing venue and the benefits of foreign listing may depend on the choice of listing location.

In this paper we examine the foreign listing experience of Chinese firms, specifically, Chinese firms' foreign listings in Hong Kong and the U.S. We document two foreign listing benefits that

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