December 19 (Vol. 3) (Issue. 1)

JARIMS
JOURNAL OF ADVANCED RESEARCH IN BUSINESS, MARKETING, AND SUPPLY CHAIN MANAGEMENT

Available online at www.jarims.aibma.org

JOURNAL OF ADVANCED RESEARCH IN BUSINESS, MARKETING, AND SUPPLY CHAIN MANAGEMENT

Journal homepage: www.jarims.aibma.org

The Dual Listing Determinants of Firms from Integrated Markets: A Conceptual Perspective

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ARTICLE INFO

Article history:
Received in revised form: October, 2019
Accepted: December 2019

Keywords:
Dual listing, Listing abroad, Market integration, Motivation.

ABSTRACT

This study aims to develop a conceptual framework of the determinants that encourage firms to have an additional listing. Particularly, this study highlights the global business strategy approach as an underpinning theory to explain the dual listing phenomenon, which considers listing abroad as a part of a firm's international strategies that cover finance, operation, marketing, investment, ownership, and control. In order to evaluate these determinants, this study implies the gravity model and Generalized Method of Moments (GMM) model to assess the strength of the market integration, stock liquidity, stock volatility, ownership concentration, reputation, and geographic proximity in the dual listing decision. These models will provide a good explanation about the firms' preference to have additional listing inside or outside the ASEAN region. The examination of this study differs from previous studies that focus on the impact of dual listing as this study emphasizes on the motivations that encourage firms to have additional listings abroad. To sum up, the suggested framework and model would enable a better understanding of the motivations for firms to have foreign listing abroad and identify the most popular determinants that encourage firms to have an additional listing of firms from integrated ASEAN markets.

1 INTRODUCTION

The act of offering shares in the overseas market in addition to the home market is referred to as listing abroad or dual listing. Dual listing is an approach firm used to raise its equity by offering them in a foreign market, which has shown a rapid increase in the last decades (Caglio et al., 2016). Firms have two choices when offering their shares abroad i.e. by cross listing or cross trading. The former is the approach where firms list their shares on a regulated foreign market and comply with the requirements of the host stock exchange (Kipkemoi, 2013). The latter is when firms are admitted into the trading by market makers without additional listing requirements through Depository Receipt. The first cross-listing in the United States transpired on December 20, 1928, originating from Canada as ordinary shares on the New York Stock Exchange (NYSE) (Alhaj-Yaseen, 2013; Karolyi, 1997). For a long period, the subject of dual listing did not get the attention of scholars until 1979, by Hamilton who developed a theoretical model specifically to study the subject matter. Today, the subject of the dual listing has been receiving a great deal of

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http://dx.doi.org/10.1018/j.jarims.2019.10.018

attention from researchers (e.g.: Esqueda, 2017; Ghadhab & Hellara, 2016a; Ghadhab & M'rad, 2018).

Firms from developing countries which suffer from high transaction and capital cost, high risks, poor governance, and information asymmetry are expected to pursue overseas listing in major markets to overcome these obstacles in order to enhance their growth opportunity (Doidge et al., 2007; Ghadhab & M'rad, 2018; Roosenboom & van Dijk, 2009; Singh, 2009; You et al., 2013). Thus, firms which aims to increase their equity capital, operation, financial performance, and firm value, as well as motivate investors to add new foreign securities to their portfolio motivated to listing abroad (Bahlous, 2013; Cherono, 2010; Karolyi, 2006; Ndirangu & Iraya, 2016; Zhou & Owusu-Ansah, 2014). Moreover, firms listing abroad to enhance their information disclosure, competition among investors, and wider financial innovation for local and foreign investors (Kariuki, 2015; Kipkemoi, 2013; Makau et al., 2015; Wanjiru, 2013).

Previously, studies explained the impact of the dual listing using numerous of theories to provide appropriate explanation such as market segmentation (Cheronoh, 2015; Fernandes & Giannetti, 2014), legal bonding theory (Ghadhab & M'rad, 2018; Huang et al., 2016) and liquidity theory (Ball et al., 2018; Dodd, 2011). Recently, the financial markets make alliances to facilitate their reach to foreign investors and to enhance capital flows between them, which is expected to decrease the firms' need to seek listings outside of their home country (Chouinard & D'Souza, 2004; Mu, 2014). However, the current situation of the market integration such as the ASEAN markets make the expected benefit from pursuing additional listing in segmented markets begin to diminish or at least reduced (Antonenko, 2005; Bacidore et al., 2005; Cavoli et al., 2011).

Therefore, this study uses the global business strategy approach as an underpinning theory to explain the phenomena of having an additional foreign listing. This theory supports the notion that firms seek dual listing as part of their globalization strategy (Ghadhab & M'rad, 2018). Based on the theory of global business strategies, this study will provide a theoretical framework that will contribute to the existing body of knowledge by delivering a reliable explanation to address the issue of the determinants that encourage firms to pursue additional listing.

Empirically, earlier scholars had focused on examining the effect of dual listing based on different factors such as stock liquidity, stock volatility, ownership concentration, firms' visibility, and geographic proximity (Al-shamahi et al., 2017; Amiram et al., 2015; Bayar & Önder, 2005; Ghadhab & Hellara, 2016b; Kwok, 2014; Roosenboom & van Dijk, 2009; Sensoy, 2017; Shen et al., 2010). Numerous models and methodologies have been used to examine dual listing especially in the context of integrated capital markets such as the VAR model, GARCH model, Copula model, and factor models (Do et al., 2016).

Additionally, there are also the regression analysis models such as multivariate regression, multiple regression, univariate analysis, logistic regressions, and Merton's model (see for example Dodd, 2011; Dodd, Louca, & Paudyal, 2015; Doidge, Karolyi, & Stulz, 2009; O'Connor & Connor, 2009). However, there is a notable lack of studies that use the gravity model and the GMM model to assess the phenomena of dual listing. This study differs from the abovementioned as it uses the gravity model and the GMM model and focuses on the determinants that motivate firms to pursue dual listing including market integration, stock liquidity, stock volatility, ownership concentration, reputation, and geographical proximity.

To sum, this study aims to fill the above gaps regarding the use of the global business strategy as underpinning theory in order to provide an appropriate theoretical framework for the determinants that encourage firms to have an additional foreign listing. Moreover, the use of the gravity model and the GMM models which expected to provide new evidence about the subject matter, as well as to overcome the restrictions and issues in using other statistical models. The use of a more robust and superior estimation technique will contribute to the existing body of knowledge about the strength of the determinants that encourage firms to have an additional foreign listing.

2 LITERATURE REVIEW

Dual Listing

Removing barriers and relaxing the restrictions of investment movement enhance firms' ability to raise their capital, financial performance, firm value by listing abroad in a foreign exchange (Ndirangu & Iraya, 2016; Yao et al., 2018). This is found to provide growth opportunities for firms, investment diversification for investors, decreased transaction and disclosure costs, and improved corporate governance (Cherono, 2010; Karolyi, 2006; Mu, 2014; Singh, 2009).

These benefits encourage firms to have an additional listing in order to decrease trading and capital costs, increase investor recognition and decrease information asymmetry (Ghadhab & M'rad, 2018; Halling et al., 2005; Karolyi, 2006; Roosenboom & van Dijk, 2009; You et al., 2013). Listing abroad widens the financial sources of firms by offering their securities in more than one market (Dobbs & Goedhart, 2008). This, in turn, enlarges their investors base; overcomes the lack of local market liquidity; improves stock liquidity, stock price informativeness, visibility, investor protection, and decreases the cost of capital (Ghadhab & M'rad, 2018; King & Mittoo, 2007).

All these benefits also motivate investors to diversify their portfolio by adding new foreign securities, as well as motivates firms to have additional listing in major markets such as the US to increase their value (Bahlous, 2013; Ghadhab & M'rad, 2018; Kariuki, 2015; Mu, 2014). Thus, hundreds of companies worldwide had been encouraged to cross-list their shares during the 1980s and 1990s (Dobbs & Goedhart, 2008).

All above, reveals that firms seek for listing abroad in major markets encouraged by the expected gains that firms tend to realize form entering the foreign markets that characterized by the low cost of capital and transaction cost, and high efficient market that provides all the protection for all stakeholders in the stock markets. This expected to improve their growth opportunity compared to their counterparts and encouraging investors to add new foreign securities to their portfolio. However, there is still more investigation needed to understand whether firms pursuing listing abroad are driven by the prospects of widening their ownership base, enhancing their stock liquidity, gaining higher share price, attaining lower cost of capital, realize positive abnormal returns, higher trading volumes.

Market Integration

Currently, stock markets around the world are forming alliances to overcome the barriers of investment movement, which found increased competition among investors and market makers, and provide wider financial innovation for local and foreign investors (Kariuki, 2015; Kipkemoi, 2013; Makau et al., 2015; Wanjiru, 2013). The integration of capital markets enhances the competition between stock markets in order to attract foreign investors (Korczak & Bohl, 2005). This makes investors more able to trade in foreign markets as a result of removing investment restrictions (Kariuki, 2015; Yao et al., 2018). The integration of capital markets is going against the notion of segmentation theory which suggests that the benefit that firms realized comes from entering a segmented market and the current circumstance make these benefits to be uneconomical as capital markets become more integrated and investors more global (Dobbs & Goedhart, 2008; Kariuki, 2015).

The ASEAN markets have been taken a series of steps to ensure the integration of their financial markets such as by creating the ASEAN Comprehensive Investment Agreement (ACIA) and the ASEAN Common Exchange (ACE) gateway to simplify the capital flow movement in order to build a regionally integrated market (ASEAN, 2013, 2015, 2017; Jantarakolica & Sakayachiwakit, 2015; Singh, 2009). Moreover, to ensure the acceptance of the regulation between different ASEAN markets, the ASEAN Capital Markets Forum (ACMF) was founded in 2009 to facilitate the investment movement within the region (Do et al., 2017; Wan, 2017). This led to an enhancement in market capitalization due to the improvement in stock prices and the increase of firm listing in these markets (Balli et al., 2014; Sharma & Wongbangpo, 2002).

While these markets seem attractive to the rest of the world, they are found to be less attractive within their region, which presented from the 22% investment activities between the ASEAN region countries (ASEAN, 2015, 2018; Koowattanatianchai & Prayarach, 2016; Singh, 2009). While the integration of ASEAN markets expected to motivate firms from these countries to have additional listing with the other ASEAN countries as a result of the release of the capital flow restrictions and unify of the listing requirement within these countries. It is found that firms from ASEAN countries prefer to have additional listing outside their region and this raises a question about whether the procedure that has been taken by ASEAN enough to encourage firms to have additional listing inside their region.

Stock Liquidity

Stock liquidity plays an important role in enhancing firms' ability to raise their capital efficiently and to attract investors who prefer to add a liquid stock to their portfolio which is considered as an indicator of the firms' sustainability and profitability (Bahlous, 2013; Berkman & Nguyen, 2010; Foerster & Karolyi, 1998; Sarkissian & Schill, 2016). High stock liquidity is found to be able to realize a decrease in the issuing and trading fees of about 21% as a result of increased competition between issuing banks and market makers (Aluoch, 2012; Kariuki, 2015; Mu, 2014). However, emerging countries such as Malaysia found suffer from low liquidity and therefore firms seek for listing in developed markets such as the US markets which are characterized by high liquidity to enhance their stock liquidity which facilitates the offering of stocks and reduces their costs (Al-Jaifi, 2017; Bayar & Önder, 2005; Karolyi, 2006; Roosenboom & van Dijk, 2009; Weston et al., 2005). This found increase firms' stock liquidity and enable them to increase equity capital and firms' value (Ndirangu & Iraya, 2016). Previous scholars examine the impact of the dual listing and showed that ASEAN markets suffer from low liquidity. However, there is still a lack of studies that examine whether firms with low stock liquidity motivated to have additional listing abroad.

Stock Volatility

The unexpected share price movement is referred to as stock volatility that leads to abnormal returns as a result of high risks (Amiram et al., 2015). Stock volatility is affected by the standards, scrutiny, and disclosure required in the stock markets (Ndirangu & Iraya, 2016). Therefore, it found that having a dual listing in developed markets increases investors' base and trading activities, which leads to decreased stock price volatility. It is found that firms with high stock volatility experience a reduction in their stock price volatility as a result of listing in the US market which is characterized by high standards and restricted corporate governance (Amiram et al., 2015; Bahlous, 2013; Jain & Strobl, 2016). Thus, firms pursue listing abroad in developed markets to decrease their stock volatility. However, the advantage of reducing stock volatility does not always transpire, which can be exemplified by the significant abnormal return of about 6% experienced by the Gulf Cooperation Council Countries (Bahlous, 2013). Countries such as Malaysia, the Philippines, and Singapore are found to suffer from high volatility due to the low trading volume (Wang, 2013). Therefore, this study aims to evaluate to what extent firms with high stock price volatility encouraged to listing abroad to reduce their stock volatility.

Ownership Concentration

Firms with control shareholders pursue overseas listing to decrease the ownership concentration in order to attract investors who do not invest in companies with control shareholders (Al-shamahi et al., 2017). Commonly, firms from emerging markets suffer from ownership concentration as a result of weak governance (Moffett et al., 2014). Southeast Asian countries such as Hong Kong, Malaysia, Singapore, Thailand, and Indonesia are found to have high ownership concentrations as two-thirds of Asian firms are controlled by a single shareholder (Aguilera & Crespi-Cladera, 2016; Carney & Child, 2013; Jiang et al., 2010; Oehmichen, 2017).

Listing abroad in developed markets is found to enhance investors' attractiveness and confidence (Al-Jaifi, 2017; Foerster & Karolyi, 1998; Sarkissian & Schill, 2016). Coffee (2002) showed that firms with poor investor protection and minority rights experience a reduction in control shareholder by listing in high standard markets such as the US and the UK exchanges, as firms experience changes in their ownership structure (Al-shamahi et al., 2017; Ayyagari & Doidge, 2010). While previous studies test the impact of listing in a highly efficient market in order to widen the ownership base and enhance the level of investor protection, this study pursues to evaluate whether firms suffer from ownership concentration seek for listing abroad to reduce the control of ownership.

Reputation

Corporate reputation denotes past activities and contributions that describe the firm's capacity to provide valuable outcomes for its stakeholders (Chun, 2005). Investors are aware of firms' reputation and they consider it an important factor that affects their investment decision (Burns et al., 2007). Firms with a weak reputation expected to pursue an overseas listing in major markets such as the US to enhance their reputation through better governance practices, as well as to improve their attractiveness and visibility to potential investors and customers as well as to be unique from their counterparts (Karolyi, 2006; Shen et al., 2010; Siegel, 2005; Walker, 2010). It is found that the press and media in foreign countries provide free advertisement, which enhances the visibility of firms and therefore their image among investors.

On one hand, listing abroad provides numerous benefits for firms. On the other hand listing in major foreign markets is associated with higher listing costs; hence, firms should take the necessary steps to balance between the gains and losses of having a dual listing (Chouinard & D'Souza, 2004). Despite the expected improvement in the firms' visibility as a result of entering a new exchange. The evaluation of the firm's reputation still needs more examination especially in the situation of firms have dual listing because of the lack of measure to evaluate the enhancement in the firms' reputation. In order to fill in this gape and to assess whether firms seek dual listing motivated by the firms' preference to enhance their reputation, the study suggested the growth of outstanding shares owned by foreign investors as a proxy to evaluate the improvement in the firms' reputation after cross listing.

Geographic Proximity

Geographic proximity is explained by the distance between the home and host markets, which is expected to influence the information flow and restrict the capital movement (Ghadhab, 2016; Sarkissian & Schill, 2004). The closeness between the home and host markets provides an advantage for investors as they are more able to trade in foreign securities (Dodd, 2013). Thus, firms are motivated to have additional listing within their region to attract more investors and improve the gains that they could realize from it (Kipkemoi, 2013; Sarkissian & Schill, 2004).

While the closeness between the home and host markets is expected to improve the listing activities between them, it is found that the development in trading techniques (electronic platforms) can increase the competition among the financial markets in attracting trading activities through the decrease in trading costs and enhanced protection and liquidity, which may affect the importance of geographic proximity in encouraging firms to pursue additional listing (Wang & Zhou, 2015). Even though the closeness of the ASEAN countries which expected to affect the trade activities between these countries as suggested by the global business strategy, there is a lack of studies that evaluate firms' preference to have additional listing within their region.

Theoretical Framework

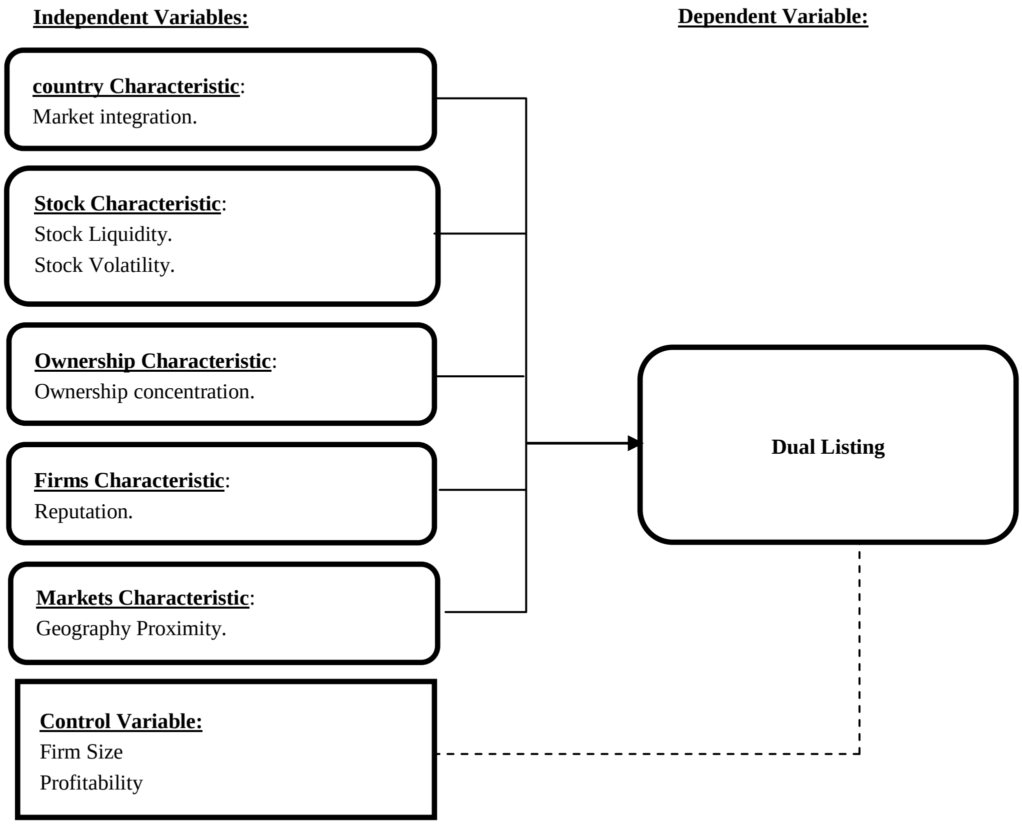
Previous scholars provide explanations for dual listing through a number of theories such as market segmentation, legal bonding, liquidity, and investors recognition (see for example Ball, Hail, & Vasvari, 2018; Fernandes & Giannetti, 2014; Ghadhab & M'rad, 2018; Huang, Jacoby, & Jiang, 2016). The global business strategy is used by several scholars as a supporting theory, which states that firms venture into the international arena to realize faster growth (Ghadhab & M'rad, 2018). Growth is an expected gain as a result of the firms' improved visibility to investors and customers (Ghadhab & M'rad, 2018; Jian et al., 2011).

Listing in the foreign market is considered as a stage in the global business approach which enhances the firms' financing sources (Dobbs & Goedhart, 2008; Ghadhab & M'rad, 2018; Pagano et al., 1998). Firms pursue listing in major exchanges to gain access to larger capital markets, which in turn enhance the firms' opportunity to raise equity, widen their investors base, and overcome the lack of liquidity. For instance, listing in the NYSE increases firms' value by 16.5% as measured by Tobin's q ratio than those who do not (Bianconi & Tan, 2010; Ghadhab & M'rad, 2018; Kariuki, 2013; and Mu, 2014).

The move also improves stock liquidity, stock price informativeness, investor protection, and visibility and decreases the cost of capital (Bahlous, 2013; Ghadhab & M'rad, 2018; King & Mittoo, 2007; Pagano et al., 1998; Zhou & Owusu-Ansah, 2014). Moreover, listing in US market exchanges also provides protection on shareholder rights by decreasing control shareholders especially after the adoption of the Sarbanes-Oxley (SOX) 2002 that enhances protection rights and reduces agency problems (Boubakri et al., 2010; Ghosh & He, 2015).

This study employs the global business strategy approach in its explanation of the dual listing phenomena. This theory covers numerous aspects of firms' strategies such as finance, investment, ownership, and control (Dymsza, 1972). Ghadhab and M'rad (2018) hypothesized that the global business strategy explains firms' decision to have an additional listing in foreign markets. This study focuses on a number of motivations that encourage firms to have an additional listing. Stock liquidity and stock volatility are expected to affect finance strategy, while ownership concentration affects the ownership structure that influences the control strategies. Reputation and geographic proximity are expected to be affected by production and marketing strategies.

Previously, it is found that firms pursue an overseas listing in a liquid market to improve their stock liquidity (Karolyi, 2006; Roosenboom & van Dijk, 2009). Furthermore, listing in a high standard market reduces stock volatility and raises the firms' ability to offer their equity abroad (Ndirangu & Iraya, 2016). Moreover, firms with ownership concentration pursue foreign listing to realize a decrease in the control of shareholders (Ayyagari & Doidge, 2010). Meanwhile, the decision of foreign investors to invest in a firm depends on its uniqueness as compared to its counterparts (Karolyi, 2006). Lastly, firms' preference to go internationally in closeness markets as it offers better understand the preference of various stakeholders (Motohashi, 2015). Based on the discussions above, the study suggests the following framework depends on the global business strategy.



3 CONCLUSION

The current study provides a conceptual relationship between the dual listing decision and the determinants that motivate firms to take this decision focus on study market integration, stock liquidity, stock volatility, ownership concentration, reputation, and geographic proximity. It is found that, the existing theories that explain the dual listing phenomena still need to be adapted as a result of the current circumstance of market integration and liberalization of capital markets. In addition, the existing models used to test the effect of dual listing are missing to investigate the determinants that encourage firms to have a dual listing in the situation of market integration such as the ASEAN markets. Thus, the proposed gravity and GMM models will provide empirical evidence about the motivations of firms from the ASEAN region in pursuing dual listing in order to fill in the gaps in the previous studies. The result of the study is important as it will offer evidence for the stakeholders about the importance of the above determinants in firms dual listing decision, as well as for investors whose concern about investment in such firms, and for the ASEAN authorities as it will provide evidence about how the market integration affect the capital and investment movement within their region. The study will help authorities to facilitate capital movements between nations and ensure the integration between the capital markets. Moreover, this study will help investors, issuing banks and market makers in their decision to invest in foreign securities in capital markets around the world.

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