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Christopher Ngassam

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[Aller au sommaire du numéro](#)

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Résumé de l'article

This study reports the results of a survey of managers of NYSE-listed firms whose stocks became listed on one or more of the following exchanges - London's International Stock Exchange (ISE), Frankfurt Stock Exchange (FSE), and Tokyo Stock Exchange (TSE). The results show much similarity between the motives of NYSE firms for listing on these three exchanges. The key motives include increasing visibility, broadening the shareholder base, and gaining access to financial markets. Most respondents perceive few initial barriers to listing on the ISE and FSE, but the situation differs on the TSE. Respondents saw cost and disclosure requirements as initial barriers, but they decided to list their firms' stock anyway.

Determinants of International Stock Listings: New Evidence

by

Christopher Ngassam*

Saint Cloud State University, USA

This study reports the results of a survey of managers of NYSE-listed firms whose stocks became listed on one or more of the following exchanges - London's International Stock Exchange (ISE), Frankfurt Stock Exchange (FSE), and Tokyo Stock Exchange (TSE). The results show much similarity between the motives of NYSE firms for listing on these three exchanges. The key motives include increasing visibility, broadening the shareholder base, and gaining access to financial markets. Most respondents perceive few initial barriers to listing on the ISE and FSE, but the situation differs on the TSE. Respondents saw cost and disclosure requirements as initial barriers, but they decided to list their firms' stock anyway.

INTRODUCTION

A growing number of U.S. companies have chosen to list their stock abroad in recent years. This growth in international listings which increasingly blurs the distinction between domestic and international capital markets has been fueled in part by recent empirical findings that equity offerings in foreign markets can increase the value of the firm and improve the liquidity of underlying stocks (Chowdhry and Nanda, 1991; Foester and Karolyi, 1998). Theoretically, overseas listings should lessen the degree of market segmentation and cause a change in equilibrium prices for dual listed stocks. Recent literature on cross-listing in emerging stock markets show how a shift from market segmentation toward integration improves domestic market liquidity for cross-listed stocks (Divecha, Drack, and Stefek, 1992; Domowitz, Glen, and Madhavan, 1998; Errunza, Hogan, and Hung, 1998).

Earlier research on the value implications of international listings focused primarily on the stock price effects of U.S. companies that listed their stock overseas. Howe and Kelm (1987) for example, report negative abnormal returns around such listings. They conclude that corporate managers interested in the financial well-being of their common shareholders should *avoid* foreign listings. They also note that the costs of listing noticeably outweigh its benefits. In a study of foreign firms that listed their stocks in the U.S., Alexander, Eun, and Janakiraman (1988) find no evidence of an increase in stock price that should accompany a wealth-enhancing listing. In sum, these two studies do not show significant benefits to the share holders of firms with foreign stock listings. The above findings run counter to the accelerating globalization of world capital markets and evidence of positive effects from cross-listings reported by recent studies on emerging markets of Latin America and Asia.

Managers choosing to list their stocks abroad are presumably acting in the best interests of their shareholders. Nonetheless, recent theoretical and empirical advances show that

managers also pursue activities not always consistent with the goal of shareholder wealth maximization. For example, Howe and Kelm (1987) suggest that U.S. corporate managers have reasons other than increasing shareholder wealth for listing their stocks on international exchanges.

Although there is no substitute for research investigations similar to those cited above, previous studies focusing on developed equity markets as well as recent researchers exploring the effects of cross-listings in emerging stock markets, have largely ignored one key source of information about international listing - corporate managers. No study to my knowledge has examined the motives of international stock listings through a survey of corporate executives. This paper tries to fill the void by examining why U.S. companies list on three foreign exchanges. Specifically, the study reports the results of a recent survey of managers of NYSE-listed firms whose stocks became listed on one or more of the following exchanges - London's International Stock Exchange (ISE), Frankfurt Stock Exchange (FSE), and Tokyo Stock Exchange (TSE).

This paper provides insight into three questions: (1) What factors motivate NYSE firms to list their stock on the ISE, FSE, and TSE? (2) What initial barriers do managers of NYSE firms perceive to listing on the ISE, FSE, and TSE? and (3) Do the motives and initial barriers differ significantly for NYSE firms listing on the ISE, FSE, and TSE? These are only initial barriers because the firms went ahead and listed despite them. As an exploratory study, it neither predicts which motives or initial barriers are most important nor which of them differ significantly among the foreign stock exchanges.

This study is important for several reasons. First, previous researchers have not surveyed managers to determine the rationale for listing their firms' shares abroad. Second, the study complements existing research on international listing (e.g., Saudagaran, 1988). Although this exploratory study cannot cover all issues about international listing, it provides valuable information on managers' views and suggests several avenues for future empirical research.

The paper has five sections. The first section discusses some potential motives for and initial barriers to international listing and the second section reviews pertinent literature. The third section describes the sample and survey questionnaire. The fourth section presents the empirical results while the final section ends with a summary and avenues for future research.

MOTIVES FOR AND BARRIERS TO INTERNATIONAL LISTING

Potential Motives and Benefits

The major theoretical motive of dual listing a firm's stock on foreign capital markets involves segmentation and its related effects. Alexander, Eun and Janakiramanan (1988) note that in completely segmented capital markets, investors of one country are unable to

invest in securities of the other country and vice versa. In completely integrated capital markets, investors of different countries face the same opportunity set including all domestic and foreign securities. Mildly segmented markets cover the entire gray area between complete segmentation and integration.

According to Saudagaran (1988), a segmented capital market is one in which the required rate of return on securities in that market differs from that on securities of comparable expected return and risk traded on other markets after adjusting for tax and foreign exchange rates. Market segmentation can result from many barriers such as transaction costs, information costs, government tax policies, restrictions on capital transfers, and language, cultural and legal barriers.

Capital market segmentation produces incentives for firms to adopt financial policies that can reduce the associated negative effects. That is, segmented markets deprive investors of diversification opportunities, thereby raising their required expected returns and hence, the cost of capital. According to Stapleton and Subrahmanyam (1977), one way to reduce the adverse effects of segmented capital markets is dual listing of the firm's securities on foreign capital markets.

If capital markets are completely or mildly segmented, listing on a foreign stock exchange should affect a firm's stock price. That is, international listing should result in higher prices or lower expected returns, which in turn should reduce a firm's cost of capital. The underlying intuition is that such listings lessen the degree of segmentation and therefore result in structural changes in equilibrium asset pricing relationships. In completely integrated capital markets, listing abroad should not have a significant effect on a firm's stock price.

Several theoretical models (Stapleton and Subrahmanyam, 1977; Alexander, Eun, and Janakiramanan, 1987; Errunza and Losq, 1985) provide insight into the nature of these changes. In practice, the issue of the segmentation-integration of international capital markets is controversial. Some empirical studies (e.g., Errunza and Losq, 1985, 1989; and Jorion and Schwartz, 1986) report a degree of segmentation but others (Bodurtha, 1989) find evidence consistent with integration.

Beyond the theoretical benefit of stock price effects, there are other possible reasons for dual listing a firm's securities abroad (e.g., Stapleton and Subrahmanyam, 1977; Stonehill and Dullum, 1982; Howe and Kelm, 1987; Saudagaran, 1988). As Table 1 shows, these motives fall into three broad groups - financial, political, and marketing and public/labor relations (Saudagaran, 1988; Biddle and Saudagaran 1991).

Table 1

Classification of Motives for U.S. Firms Seeking International Listing

| Question # in Survey | Motives |
|---------------------------------|--|
| | Financial |
| 2 | Improve relations with the foreign financial community |
| 3 | Increase the demand for the firm's stock |
| 4 | Obtain a less expensive source of funds |
| 5 | Gain greater access to foreign money markets |
| 7 | Improve the ability to make foreign mergers and acquisitions |
| 12 | Help foreign investors trade the firm's stock |
| 13 | Alter the firm's exposure to exchange rate fluctuations |
| 14 | Increase liquidity of the firm's stock |
| | Political |
| 1 | Improve relations with the foreign government |
| 11 | Meet local ownership requirements |
| | Marketing and Public/Labor Relations |
| 6 | Recognize the country as an important market for the firm's products or services |
| 8 | Give a positive signal about the firm's future prospects |
| 10 | Increase corporate visibility |
| 15 | Improve the prospects of labor relations overseas |

Note: This classification scheme is merely suggestive, not mutually exclusive, because some motives may fit into more than one category.

From a financial perspective, international listing can indirectly give firms a chance to improve their cost and availability of funds by tapping foreign money and capital markets. For example, foreign markets can provide a less expensive source of funds due to different tax structures abroad. Of course, a firm does not have to list its equity abroad

to borrow from foreign banks, issue Eurobonds or raise money with similar instruments. Yet, Howe and Kelm (1987) note that having a corporation's stock listed can provide the company greater access to the foreign money market and make it easier to sell debt.

International listing can provide other financial benefits. First, a firm can expand its potential investor base and increase the demand for its stock. This may occur because listing provides a convenient way for foreign nationals to get and trade a firm's stock. Foreign investors can trade the stock in their currency and thus save transactions costs. Second, foreign listing can improve a firm's ability to make foreign mergers and acquisitions because some countries permit only firms listed on the local exchange to make tender offers. Finally, an active foreign market in a firm's stock can make it easier to arrange stock swaps and tender offers.

Firms may list their shares on foreign stock exchanges for political reasons. Listing overseas could help a firm overcome the political restrictions imposed by a host country. For example, foreign stock listings may reduce the risk of the imposition of capital controls. International listing can improve the relationship between the firm, the foreign government and the foreign financial community, which in turn may reduce political risk. If political risk is undiversifiable, such a reduction should lower the firm's cost of capital. Selling shares on foreign stock exchanges can help avoid nationalistic reactions to foreign subsidiaries that are wholly owned. Foreign listing can help a firm meet local ownership requirements and engender local support.

Listing a company's stock abroad can stem from marketing and public/labor relations motives. For example, foreign listing can boost corporate marketing efforts by broadening product identification with investors and consumers in the host country. Therefore, listing abroad can serve as a source of visibility and name recognition. International listing can also be an act to recognize a country as an important market for the firm's products or services. The application and approval process for listing on a foreign exchange can provide a positive signal from management about the firm's future prospects.

From a public and labor relations standpoint, international listing can increase exposure to investors, the government, the stock exchange, and the financial community of the host country. Widespread foreign ownership of stock encourages foreign shareholder, employee, and management loyalty and can improve the prospects of labor relations within foreign affiliates. For example, some firms offer stock option and stock purchase plans to employees in their foreign operations. Listing on the local stock exchange can make these plans more effective.

Another public relations motive closely related to achieving corporate visibility and recognition discussed above is listing internationally for the sake of enhancing corporate prestige. This motive was not investigated in the questionnaire administered in the study. However, corporate prestige may be important especially due to the types/class of markets in which motives for dual listings are being examined, i.e. Frankfurt, London,

and Tokyo. Listing stocks on these markets based in the most advanced industrialized countries could very well enhance the prestige of the listing companies.

Potential Barriers and Costs

Firms seeking to list their stocks abroad face several potential barriers and costs (Howe and Kelm, 1987; Alexander, Eun, and Jankiramanan, 1988; Biddle and Saudagaran, 1991). For instance, most stock exchanges charge fees for initial listing and continuing annual registration fees. Howe and Kelm (1987) estimate that the direct costs are from \$100,000 to \$300,000 per year for an overseas listing for a typical publicly traded U.S. firm. Besides the initial and annual listing fees, firms incur even greater costs by providing information to the new financial community and by following different accounting and disclosure standards.

Biddle and Saudagaran (1991) report that the major accounting and regulatory costs of a foreign listing include: (1) adjusting accounting and auditing procedures to meet local requirements, (2) changing the frequency of financial reporting, (3) meeting more extensive foreign financial disclosures, and (4) dealing with the foreign regulatory agency's jurisdiction over worldwide business practices. Biddle and Saudagaran (1989) present evidence supporting the notion that firms are less likely to list their shares on foreign exchanges with more stringent reporting requirements.

Another potential cost involves government-imposed controls on foreign exchange and capital. For example, foreign exchange controls in some countries make it difficult for citizens to invest in foreign securities. Listing abroad also can introduce an element of uncertainty into the future prospects of the firm. For example, regulatory uncertainty can be an important cost. Trading U.S. common stocks on foreign exchanges can facilitate manipulation of prices and use of inside information that is beyond the reach of U.S. regulators.

RELATED RESEARCH

There is a growing body of empirical research on international capital markets. Several empirical studies examine the stock price impact of international listings and the characteristics of firms listing abroad. For example, Howe and Kelm (1987) study the effect of overseas listings on stock prices. Their sample includes 165 U.S. firms that also listed on stock exchanges in Basel, Frankfurt, and Paris. Using standard event-time methodology, they investigate the impact of a firm's first, second, and third overseas listing. They also examine whether listings on different exchanges have different price effects.

Howe and Kelm find that the first listing has the most negative abnormal returns. Their results also show that foreign listings have a negative value impact during the listing announcement period, especially for the Basel and Frankfurt exchanges. They suggest that firms avoid international listing because it could introduce an element of uncertainty into their future prospects that could cause price declines.

McGoun (1987) analyzes the value impact of U.S. stock listing on the Tokyo, Toronto, and London exchanges. The evidence shows a positive response during the 30-day period before listing, which suggests a favorable market response to news about the listing. Similar to findings of domestic exchange listings, McGoun reports a negative market reaction in the post-listing period.

Alexander, Eun and Janakiraman (1988) take a different perspective by examining the behavior of stock returns around foreign firms listing in the U.S. Specifically, they examine 34 foreign firms dually listing on the Amex, NYSE, or Nasdaq system between 1969 and 1982. They hypothesize that international listing leads to a decline in the expected return on the firm's common stock if capital markets are either completely or mildly segmented beforehand. Their evidence supports this hypothesis. The cumulative abnormal returns during the pre-listing, listing and post-listing periods are positive, negative and negative, respectively. Their evidence suggests that the stock prices of the sample firms become part of a more integrated capital market after international listing.

Saudagaran (1988) examines another aspect of international listing by investigating the association between certain firm characteristics and the likelihood of listing abroad. The major hypothesis is that firms are more likely to list overseas if they have high sales in foreign countries and have high amounts of assets and employment overseas. Using data on 481 multinationals, the results show significant association between the likelihood of listing abroad and the relative size of a firm in its domestic capital market and the ratio of foreign to total sales. While this study sets out to investigate motives for listing abroad, the empirical tests serve only to solidify the expected associations between foreign listing and company characteristics.

Howe and Madura (1990) measure risk shifts in response to international stock listing in Germany, France, Japan, and Switzerland by U.S. firms. They find no significant shifts in risk from international listing, despite the risk measure examined. These findings suggest that listing is an ineffective mechanism for reducing segmentation because of the existing degree of market integration.

Madura, Piccou and Tucker (1991) examine whether the issuance of American depository receipts (ADRs) affects the issuing firm's risk. They conclude that the issuance of ADRs generally did not influence the sensitivity of a firm's returns to its domestic market or to the U.S. market.

A second group of related research addresses issues pertaining to financial markets liberalization and stock market development in emerging markets. Domowitz, Glen, and Madhavan (1998) show that market integration improves domestic market liquidity for

cross-listed stocks. Divecha, Drach, and Stefek (1992) find significant correlations between individual firms in emerging stock markets than in developed markets. They argue that the high correlations are indicative of a lack of diversifiable risk in the domestic market thus magnifying the international diversification benefits of financial integration.

Finally, Foerster and Karolyi (1998) argue with empirical support that listing stocks on foreign stock exchanges in emerging markets increases the listing firm's value and enhances liquidity of underlying stocks.

SAMPLE AND SURVEY QUESTIONNAIRE

Sample

As an exploratory study, the initial sample contains only NYSE firms because, until recently, only large or multinational firms considered foreign stock listings (Biddle and Saudagaran, 1991). Such firms characterize those listed on the NYSE more than Amex and NASDAQ firms. The NYSE provided the names of companies listed on one or more of the following exchanges - Tokyo, London, and Frankfurt - and the NYSE after the third quarter of 1995.¹ These exchanges are the three largest non-U.S. stock exchanges by market capitalization. Therefore, the study includes only firms on the largest U.S. equity market (NYSE) that also listed on the largest non-U.S. equity markets.

The source of the names, addresses, and telephone numbers of the highest ranking financial officer of each company was *The Standard & Poor's Corporate Directory*. A telephone pilot study of 11 companies provided feedback about the preliminary questionnaire. The final sample excludes these firms but contains 174 other NYSE firms listed on one or more of the three foreign stock exchanges. In depth follow up telephone interviews with a random sample of six respondents helped to clarify the responses.

Survey Questionnaire

The final questionnaire has 22 closed-ended questions - 15 on motives for and 7 on initial barriers to international listing.² Respondents rated the importance of each motive and barrier on a 5-point scale (0 = no opinion, 1 = no importance, 2 = some importance, 3 = moderate importance, and 4 = great importance). The questionnaire contains open-ended questions about the major motive for and initial barrier to listing on each exchange where they traded. Other questions concern the trading location (London, Frankfurt, and Tokyo) of their firms' stock, their position and involvement in international listing decisions.

The survey consisted of two mailings, which took place in October and November 1995, respectively. The survey yielded 71 (40.8%) usable questionnaires. Of these 71 firms, 35

(49.3%) listed on a single foreign stock exchange and the remainder had multiple foreign listings. In total, there are 120 listings - 55 on the ISE, 26 on the FSE, and 39 on the TSE. Of these 120 listings, the respondents participated in 77 (64.2%) on the TSE. Although the questionnaires were addressed to the highest-ranking financial officer, some were referred up to chief executive officers (CEOs) and some were passed along to investor relations. The distribution of the 57 respondents who identified their position in the company is as follows: 34 (59.6%) finance, 16 (28.1%) investor relations, and 7 (12.3%) CEOs.

EMPIRICAL RESULTS

Motives

Table 2 presents descriptive statistics on the 15 motives for listing on the three exchanges separately and for the combined sample.³ The same motives (M2, M3, and M10) appear among the three most important motives for each exchange but the rankings differ slightly. The most highly ranked motive for listing on all three exchanges is to improve relations with the foreign financial community (M2). The other two most highly ranked motives are to increase the demand for the firm's stock (M3) and to increase corporate visibility or prestige (M10).⁴

Table 2

Importance of Motives for NYSE Firms Listing on the London, Frankfurt and Tokyo Stock Exchanges

| Question | Motive | London (n = 55) Mean | London (n = 55) Rank | Frankfurt (n = 26) Mean | Frankfurt (n = 26) Rank | Tokyo (n = 39) Mean | Tokyo (n = 39) Rank | All (= 120) Grand Mean | All (= 120) Rank | ANOVA (df = 2) F-value |
|----------|--|----------------------------|----------------------------|-------------------------------|-------------------------------|---------------------------|---------------------------|---------------------------------|------------------------|------------------------------|
| M2 | Improve relations with the foreign financial community | 3.31 (.81) | 1 | 3.00 (.84) | 1 | 3.21 (.77) | 1 | 3.21 (.81) | 1 | 1.30 |
| M3 | Increase the demand for the firm's stock | 2.89 (.85) | 2 | 2.73 (1.08) | 3 | 3.00 (1.08) | 3 | 2.89 (.98) | 2 | .59 |

| | | | | | | | | | | |
|-----|--|----------------|----|----------------|----|----------------|----|----------------|----|------|
| M10 | Increase corporate visibility | 2.70 (.92) | 3 | 2.88 (.91) | 2 | 3.13 (.84) | 2 | 2.88 (.97) | 3 | 2.55 |
| M5 | Gain greater access to foreign money markets | 2.62 (1.08) | 4 | 2.64 (1.10) | 4 | 2.64 (.99) | 5 | 2.61 (1.03) | 4 | .08 |
| M12 | Help foreign investors trade the firm's stock | 2.42 (.94) | 5 | 2.38 (1.02) | 6 | 2.51 (.97) | 6 | 2.44 (.97) | 5 | .17 |
| M6 | Recognize the country as an important market for the firm's products or services | 2.24 (1.17) | 6 | 2.42 (1.24) | 5 | 2.69 (1.17) | 4 | 2.43 (1.19) | 6 | 1.69 |
| M4 | Obtain a less expensive source of funds | 2.22 (1.02) | 9 | 1.80 (1.00) | 7 | 2.23 (1.13) | 7 | 2.14 (1.06) | 7 | 1.60 |
| M8 | Give a positive signal about the firm's future prospects | 2.00 (.96) | 8 | 1.88 (.77) | 7 | 2.13 (.95) | 8 | 2.02 (.92) | 8 | .56 |
| M14 | Increase liquidity of the firm's stock | 1.80 (.90) | 9 | 1.80 (.97) | 8 | 1.95 (1.01) | 9 | 1.86 (.96) | 9 | .29 |
| M9 | Improve price stability of the firm's stock | 1.56 (.86) | 10 | 1.42 (.70) | 11 | 1.64 (.84) | 10 | 1.56 (.82) | 10 | .55 |
| M7 | Improve the ability to | 1.49 (.79) | 11 | 1.50 (.71) | 10 | 1.44 (.85) | 11 | 1.48 (.79) | 11 | .07 |

| | | | | | | | | | | |
|-----|---|---------------|----|---------------|------|---------------|----|---------------|----|------|
| | make foreign mergers and acquisitions | | | | | | | | | |
| M11 | Meet local ownership requirements | 1.24 (.70) | 12 | 1.32 (.63) | 12 | 1.16 (.64) | 13 | 1.23 (.66) | 12 | .46 |
| M1 | Improve relations with the foreign government | 1.02 (.57) | 15 | 1.12 (.78) | 13 | 1.26 (.86) | 12 | 1.12 (.72) | 13 | 1.29 |
| M15 | Improve the prospects of labor relations overseas | 1.03 (.47) | 14 | 1.00 (.57) | 14.5 | 1.13 (.61) | 14 | 1.06 (.54) | 14 | .52 |
| M13 | Alter the firm's exposure to exchange rate fluctuations | 1.05 (.40) | 13 | 1.00 (.40) | 14.5 | 1.45 (.43) | 15 | 1.03 (.41) | 15 | .17 |

The rating scale for a firm's motives for international listing is: 0 = no opinion, 1 = no importance, 2 = some importance, 3 = moderate importance, and 4 = great importance

The standard deviation is shown in parenthesis.

None of the ANOVA tests is statistically significant at $p = .05$.

Other motives with consistently high rankings include gaining greater access to foreign money markets (M5), helping foreign investors trade the firm's stock (M12), and recognizing the country as an important market for the firm's products or services. Of the six motives ranked as most important, four represent financial motives (M2, M3, M5, and M12) and the other two are marketing and public relations motives (M6 and M10). Attaching much practical significance to the remaining motives is difficult because of their low mean scores.

The analysis of variance (ANOVA) shows no difference in the means for each motive among NYSE firms listing on the ISE, FSE, and TSE at $p = .05$. Although not shown, t-tests between the means of the motives for each pair of exchanges provide the same result.

Table 3 presents the responses to the open-ended question on the major motive for listing on the ISE, FSE, and TSE. Most respondents gave a motive: 49 of 55 (89.1%) on the ISE, 22 of 26 (84.6%) on the FSE, and 37 of 39 (94.9%) on the TSE. The most common motive on all three exchanges is to improve visibility. Half those giving a motive for listing on the FSE cite visibility versus 46.9% on the ISE and 35.1% on the TSE. The term "visibility" includes such responses as improving name recognition, image, exposure, and awareness. The two other major motives are to broaden the shareholder base and to increase access to financial markets. Not surprisingly, these responses are similar to the top ranked motives shown in Table 2.

Table 3

Major Motives for NYSE Firms Listing on the London, Frankfurt and Tokyo Stock Exchanges Based on Responses to an Open-Ended Question

| Major Motive | London (n = 49) | Frankfurt (n = 22) | Tokyo (n = 37) |
|--|-----------------------|-----------------------|----------------------|
| Increase visibility (awareness, name recognition, or exposure) | 46.9% | 50.0% | 35.1% |
| Broaden shareholder base (diversity ownership) | 20.4 | 31.8 | 27.0 |
| Increase access to financial markets | 22.4 | 9.1 | 18.9 |
| Provide future market for products | 4.1 | 4.5 | 13.5 |
| Other | 6.2 | 4.5 | 5.4 |

Totals may not sum to 100% due to rounding.

Telephone interviews provide additional insights about foreign listing. The interviews confirm the importance of several financial motives for international listing. For example, the respondents perceive that listing makes it easier for foreign investors to trade their firm's stock. In turn, the ease of trading could lead to greater demand for their stock and a more diversified ownership base.

The interviews also suggest that certain motives are more important in the foreign listing decision than implied by theory alone. For example, several said that a major general motivation for listing overseas was simply to get a "market presence" by globalizing operations and relationships abroad. Others attached more importance to increasing

corporate visibility than such financially oriented motives as getting less expensive funds, increasing liquidity, and improving stock price stability.

The respondents note that listing on a foreign stock exchange can increase visibility in several ways. Firms often make presentations to members of the financial community and the press to familiarize them with the company and its products or services. Foreign listing also results in some free publicity. The increase in foreign share ownership creates a demand for more information about the company, which is often reported by local analysts and the press.

Initial Barriers

The survey also tries to discover the initial barriers of NYSE firms that listed on the ISE, FSE, and TSE and if these barriers differ among the exchanges. Table 4 displays the importance of various barriers to listing abroad.⁵ The most important barriers are disclosure requirements (B4), information costs (B1), and transactions costs (B2). The means for the barriers are usually higher on the TSE compared with the ISE and FSE.⁶ The ANOVA tests show significant differences in the mean responses among the three exchanges on disclosure requirements and information costs.

Table 4

Importance of Initial Barriers to NYSE Firms Listing on the London, Frankfurt and Tokyo Stock Exchanges

| Question | Motive | London (n = 55) Mean | London (n = 55) Rank | Frankfurt (n = 26) Mean | Frankfurt (n = 26) Rank | Tokyo (n = 39) Mean | Tokyo (n = 39) Rank | All (= 120) Grand Mean | All (= 120) Rank | ANOVA (df = 2) F-value |
|----------|-------------------------|----------------------------|----------------------------|-------------------------------|-------------------------------|---------------------------|---------------------------|---------------------------------|------------------------|------------------------------|
| B4 | Disclosure requirements | 1.81 (.94) | 1 | 1.73 (.87) | 1 | 2.79 (1.09) | 1 | 2.11 (.98) | 1 | 13.53** |
| B1 | Information costs | 1.79 (1.02) | 2 | 1.69 (.76) | 2 | 2.34 (1.12) | 2 | 1.95 (1.02) | 2 | 4.26* |
| B2 | Transaction costs | 1.66 (1.02) | 3 | 1.42 (.76) | 3 | 1.89 (1.13) | 3 | 1.68 (1.01) | 3 | 1.72 |
| B3 | Trading regulation | 1.36 (.74) | 4 | 1.31 (.74) | 4 | 1.47 (.86) | 4 | 1.38 (.78) | 4 | .40 |

| | | | | | | | | | | |
|----|---|---------------|-----|---------------|---|----------------|---|---------------|---|-----|
| B6 | Government imposed controls on capital | 1.25 (.79) | 5.5 | 1.15 (.73) | 7 | 1.32 (1.04) | 5 | 1.25 (.87) | 5 | .27 |
| B5 | Government imposed controls on foreign exchange | 1.25 (.79) | 5.5 | 1.16 (.75) | 6 | 1.24 (.83) | 7 | 1.23 (.79) | 6 | .12 |
| B7 | Market manipulations | 1.20 (.83) | 7 | 1.17 (.82) | 5 | 1.30 (1.00) | 6 | 1.22 (.88) | 7 | .20 |

The rating scale for a firm's motives for international listing is: 0 = no opinion, 1 = no importance, 2 = some importance, 3 = moderate importance, and 4 = great importance.
The standard deviation is shown in parenthesis.
N* p = .05 ** = .01

Table 5 presents the responses to the open-ended question on the barriers faced by NYSE firms that listed on the ISE, FSE, and TSE. Most respondents on the ISE (65.7%) and FSE (80.0%) perceive no major barriers. These percentages are probably understated because many did not answer the question. The most important barriers involve the cost (43.3%) and disclosure requirements (23.3%) of listing on the TSE.

Table 5

Initial Barriers to NYSE Firms Listing on the London, Frankfurt and Tokyo Stock Exchanges Based on Responses to an Open-Ended Question

| Initial Barrier | London (n = 35) | Frankfurt (n = 15) | Tokyo (n = 30) |
|-------------------------------------|--------------------|-----------------------|-------------------|
| None | 64.7% | 80.0% | 13.3% |
| Cost | 22.9 | 0 | 43.3 |
| Disclosure and listing requirements | 8.6 | 6.7 | 23.3 |
| Government regulations and controls | 0 | 0 | 13.3 |
| Other | 2.9 | 13.3 | 6.7 |

Totals may not sum to 100% due to rounding.

The telephone interviews confirm that costs and administrative burdens incurred when listing on an overseas exchange are major considerations, primarily on the TSE. For example, one respondent said that the costs associated with listing and continuous disclosure on the TSE are "outrageous." These costs include the costs of Japanese legal counsel, translating corporate annual statements into the local language, meeting Japanese generally accepted accounting principles, filing government paperwork, maintaining local financial press coverage, and dealing with the complications of on-going administration in a foreign country.

In their analysis of whether to list, some respondents saw Tokyo as an emerging major money center with long-run benefits. Some did not view the supposed stringent disclosure requirements on the TSE as a problem. They said that large firms could negotiate with the exchange officials and avoid full conformity with the disclosure requirements. Others noted that both the Japanese government and the TSE had taken steps during the 1980s to reduce regulatory disclosure burdens on foreign companies.

CONCLUSIONS

Before presenting the conclusions, the study's limitations warrant attention. First, the study has a limited scope. It examines only the major motives for NYSE firms listed on three non-US exchanges. Second, the study does not purport to reflect the barriers that all NYSE firms face in listing abroad. Instead, it focuses only on the initial barriers faced by the sample of NYSE firms listing on the ISE, FSE, and TSE. Third, survey research has potential non-response bias, but the high percent of usable responses (40.8%) somewhat lessens any bias. Fourth, the study surveys only one individual in each firm, but the decision to list abroad includes other persons. Yet, most respondents had direct involvement in the listing decision. Finally, the sample size is small but still represents 120 separate listings.

The results of the survey lead to several conclusions. First, there is much similarity between the motives of NYSE firms for listing on the ISE, FSE, and TSE. The key motives include increasing visibility, broadening the shareholder base, and gaining access to financial markets. Other important reasons for international listing include improving relations with the foreign financial community and increasing demand for the firm's stock. The most important reasons for listing have a financial and a market-public relations orientation. Second, most respondents perceive few initial barriers to listing on the ISE and FSE, but the situation differs on the TSE. Respondents saw cost and disclosure requirements as initial barriers, but they decided to list their firms' stock anyway.

There are several avenues for future research. Although Tokyo, London and Frankfurt are the largest overseas equity markets, similar research could examine U.S. firms listing their stock on other developed or emerging capital markets. Another research direction is to investigate why foreign firms list in U.S. markets. A third avenue for research is to survey a sample of non-foreign-listed firms, ask whether they ever considered a foreign listing, and if so, why they did not proceed with it. Such research could help identify the barriers to international listing that managers perceive as prohibitively high. A fourth issue requiring study is the timing of international listings. Why do firms decide to list on another exchange when they do? Does listing precede offshore external financing? Finally, future research could examine whether such variables as size or type of business affect a firm's motives for international listing. These extensions may provide greater insight into this phenomenon and help to determine the universality of this kind of research.

Notes

1. Historically, there has been more trading of foreign stocks on the London exchange than on the others because of its reputation as a major financial market. In the latter half of the 1980s, Japan played a bigger role for U.S. firms seeking a foreign market for their stocks. The largest non-U.S. equity market based on market capitalization in 1998 is the TSE, followed by London's ISE and then Frankfurt.
2. The sources for the literature review and the questions used in the survey include both academic- and practitioner-oriented publications. The references contain only academic sources. A list of articles from practitioner-oriented publications including *Euromoney*, *Forbes*, *Fortune*, *Institutional Investor*, *The Commercial and Financial Chronicle*, and *The Wall Street Journal* is available from the authors.
3. There is a high level of consistency among the ranking of the motives. Spearman rank order correlations, r_s , show only slight differences between each pair of exchange: $r_s = .978$ between the ISE and FSE, $.986$ between the ISE and TSE, and $.974$ between the FSE and TSE, These correlations are significant at $p = .01$ using a two-tailed test.
4. In this study the motives "Increase Visibility" and "Prestige" are synonymous.
5. Spearman rank order correlations, r_s , show a high level of association at $p = .05$ between the rankings of the barriers for each pair of exchanges: $r_s = .936$ between the ISE and FSE, $.882$ between the ISE and TSE, and $.893$ between the FSE and TSE.
6. For disclosure requirements, the t-tests show that the means are significantly larger on the TSE versus the ISE (B4) ($t = 4.56$, $p = .01$) and the FSE ($t = 4.11$, $p = .01$). For information costs (B1), the means also are larger on the TSE versus the ISE ($t = 2.42$, $p = .05$) and the FSE ($t = 2.52$, $p = .05$).

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