
BRIDGING THE WALLS: CROSS-LISTING STATUS, STOCK EXCHANGE DISTANCE, AND LEGITIMACY SPILLOVER

Kerwin Xiang Liao

Motivation

- Emerging markets face great need to attract foreign investment
- Local stock markets establish, but hard to be recognized by developed stock markets at the beginning
- How can such stock markets obtain foreign asset inflows?

What is China's A-share MSCI inclusion?

By Reuters Staff

6 MIN READ



SHANGHAI (Reuters) - Global market research and index company MSCI Inc will add around 230 China-listed shares to its emerging market benchmark in a two-step process in June and September, a move expected to unleash a surge of foreign inflows into the country's stock markets.

Research Question

- How companies in emerging markets gain legitimacy in domestic stock markets from the perspective of foreign investors through cross-listing behaviors and benefit from foreign investments?
 - Firms seek fund raising for further development
 - Firms face regulations on being listed on different exchanges
 - Firms will take advantage of various sources to gain recognition, i.e. media
 - Government need to control stock market to ensure financial stability

Theory & Literature

- Three major ways of gaining organizational legitimacy:
 - Regulatory Legitimacy
 - Conform to legal and regulatory rules
 - Moral Legitimacy
 - Congruence on the ideals (e.g., CSR)
 - Cognitive Legitimacy
 - Consistent with local social expectations

Hypotheses

- **Hypothesis 1 (H1).** The cross-listed firm will see an increase in the foreign institutional investors' ownership in their stocks listed in Chinese Stock Exchanges when its stock in Bridge stock exchange is owned by more foreign investors.
- **Hypothesis 2 (H2).** The positive media coverage is related to a subsequent increase in the foreign institutional investors' ownership in their stocks listed in Chinese Stock Exchanges.
- **Hypothesis 3a (H3a):** The parliamentary tie is related to a subsequent decrease in the foreign institutional investors' ownership in their stocks listed in Chinese Stock Exchanges.
- **Hypothesis 3b (H3b):** The absence of parliamentary ties is related to a subsequent decrease in the foreign institutional investors' ownership in their stocks listed in Chinese Stock Exchanges.

Data Source

- **Bloomberg Terminal**
 - Foreign Ownership for stocks listed in different stock exchanges
 - Company Chairman
- **Nexis Univ.**
 - # total news during the given month (media visibility)
 - # negative news during the given month
- **National People's Congress, Chinese People's Political Consultative Conference**
 - Member list